DETERMINANTS OF CAPITAL STRUCTURE OF NIGERIAN NON – FINANCIAL FIRMS

by

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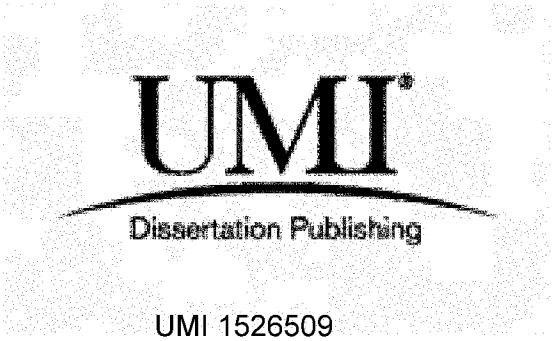

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ABSTRACT

The research report presents empirical findings on the determinants of capital structure of selected sample population of non – financial firms of Nigeria. The study was based on quantitative research orientation, and descriptive research design. Secondary data was obtained from 2000-2012 Standard and Poor (S&P) Nigeria Stock Exchange's twenty seven non – financial firms as sample population for the study. Data analysis involved the use SPSS quantitative software (Lussier, 2011), with the adoption of Fixed Effect Estimation (FEE) and Ordinary Least Square (OLS) classical regression linear model (Wooldridge, 2013).

The review of literature elucidated major and selected theories as the Trade-off Theory, Pecking Order Theory by Myers (1984) and Agency Theory of cost/debt by Meckling (1976), and relating the theories to Nigerian non-financial firms. The theories are further used in the discussion of the major findings on the determinants of capital structures in Nigeria.

Major research findings of the study revealed the impact of liquidity in the leverage of Nigerian non – financial firms as a result of institutional factors such as size, return, growth, tangibility, liquidity and dividend on firms' impact and methods of financing. Also, the visibility of static Trade – off Theory as more constant in determining the wave of capital structures of Nigerian non –financial firms.

The study concludes by reiterating that even though the selected firms used for the study is not a reflection of all the non-financial firms in Nigeria, however, it asserts that most Nigerian's non – financial firms experience high leverage and dividend payments to investors (foreign and local) as well as experience low liquidity, which needs to be minimized of avoided. In sum, further empirical research is required, especially with the most recent data of S&P and Fitch's (2014) global ratings of Nigeria's economic performance as the leading economy in Africa (Chima, 2014).

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ABBREVIATIONS

GDP = Gross Domestic Product

FDI = Foreign Direct Investment

IMF = International Monetary Fund

NSE = Nigerian Stock Exchange

TANG = Tangibility

LIQ = Liquidity

DIV = Dividend

LEV = Leverage

SIZE = Size of Firms

Return = Profitability

GROWTH = Growth Opportunities of Firm

EBIT = Earnings before Interest Tax

NFF = Non-Financial Firms

TOT = Trade off Theory

ATD = Agency Theory of Debt

POT = Pecking Order Theory

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DEDICATION

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CHAPTER I

INTRODUCTION

Since the pioneer study of Modigliani and Miller (1958), regarding the role of capital structure decision on the value of the firm, there is considerable literature both theoretical and empirical in this field. In the original paper, Modigliani and Miller (1958) based on a simplistic assumption of no taxes and perfect competition, concurred that capital structure is irrelevant to the value of the firm. But with the introduction of taxes into the model and the impact of tax shield of interest expenses involved in debt financing, the 'trade-off' theory of capital structure became the cornerstone of empirical literature. Subsequently, the 'pecking order' theory (POT) of Myers (1984) and 'agency theory' of debt (ATD) of Jensen and Meckling (1976) were added to the theoretical literature. These theories suggest various determinants of capital structure.

Capital structure is defined as the means by which a company is financed. It refers to the mix of debt and equity in the capital structure of the firm (Damodaran, 2001). The mix of debt and equity (leverage ratio) affects the cost of capital and therefore the value of the firm. In most countries, interest expenses are deductible for corporate tax purposes, while dividends have to be paid out of net-of-tax corporate income, thus making most tax systems favor debt financing over equity financing (Ogebe, Ogebe and Alewi, 2013). A company's financial policies are affected by tax as well as non-tax considerations. A non-tax consideration is that indebtedness of company's should not be too high to keep the probability of costly bankruptcy low. In contrast,

an advantage of debt finance is that it reduces the free cash flow within the firm and hence can act as a disciplining mechanism on overspending managers.

There are a number of studies on determinants of capital structure in the context of developed countries (Rajan and Zingles, 1995; Bevan and Danbolt, 2002; Shyam-Sunder and Myers, 1999; Frank and Goyal, 2003, Hall, Hutchinson and Michaelas, 2004). But limited studies on the role of determinants of capital structure of firms, especially Non-Financial Firms in developing countries especially emerging market economies. Also, Bhaduri and Saumitra (2002) attribute this to the limited role of firms in economic development and relatively underdeveloped capital market. In recent years, there are few studies in this field on Nigeria, these include the studies of (Salawu and Agboola 2008, Ezeoha and Francis, 2010; Adeyemi and Oboh, 2011; Muritala, 2012; Owalabi and Inyang, 2012; and Bayero, 1996). Howeer, it is significant to note that, some of the studies suffer from limited data, limited estimation procedures, and contradictory results. The present study contributes to the literature by examining the determinants of capital structure of firms in Nigeria using a panel data of 27 Non-Financial Firms listed in Nigerian stock exchange from 2000 to 2012 S&P data. The study covers pertinent literature, econometric methodology, and considerable analytical discussion.

Emerging data revealed Nigeria as the biggest economy in Africa in 2013, thereby surpassing South Africa for the first time (Ogunlesi 2014). The author further revealed how current data indicated 2013 GDP to a total of 80.3 trillion naira ($509.9 billion USD) compared to South Africa's GDP of U.S. $370.3 billion at the end of 2013. But Nigeria represents a number of paradoxes. First, its economic growth of 7.5 per cent per annum for 2009-2011 is one of the highest in Africa and world. Secondly, over the last few years, the capital and

financial account has improved significantly; foreign direct investment (FDI) and foreign portfolio investment (FPI) have increased to $12.3 billion (4.6 per cent of GDP) from $7.8 billion (3.4 per cent of GDP) in 2010 (Ogunlesi, 2014). These developments have led to a sharp increase in international reserves to US$ 45 billion, equivalent to six months import cover (International Monetary Fund, 2013). Thirdly, the Nigerian economy is heavily dependent on oil; nearly 95 per cent of total exports come from oil exports. According to Sala-i-Martin and Subramanian (2003), in Nigeria, there is an increase in oil revenues from $33 per capita in 1965 to $325 per capita in 2000, which had no effect on per capita GDP, which amounted to $325 in 2000, unchanged from its 1965 level (2003). Economic growth is concentrated in the large informal economy with over 60 per cent of the population still living below the poverty line (World Bank, 2014). The huge regional variations and the absence of benefits of oil-boom not percolating to the livelihood of the population, has led to sectarian and ethnic strife in Nigeria recently. Hence the very high magnitude of foreign investment (FDI and FPI).

1.0: BACKGROUND OF THE STUDY

The corporate sector in a developing country like Nigeria is characterized by a number of firms operating in a largely deregulated and increasingly competitive environment. The financial liberalization in 1987 has changed the operating environment of firms including Nigerian Non – Financial Firms inclusive. The liberalization system gives the firms more flexibility to the Nigerian financial managers in choosing the firm's capital structure (Salawu &Agboola, 2008). Although the capital structure issue has received substantial attention in developed countries, it has remained neglected in the developing countries. The reasons for this might be that

developing economies have placed little importance to the role of firms in economic development.

In addition, until the 80's, the corporate sectors in many Less Developed Countries (LDCs) faced several constraints on their choices regarding sources of funds as the access to equity markets was either regulated, or limited due to the underdeveloped stock market (Bhaduri and Saumitra 2002). For instance, the only securities exchange currently operating in Nigeria is the Nigerian Stock Exchange (NSE). As at the end of September 2012, there were 202 listed companies with a market capitalization of US$52 billion. There are 311 active participating members at the Nigerian Stock Exchange (International Monetary Fund, (2013). 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 because of the impact such a decision exerts on an organization's ability to deal with its competitive environment.

The difficulty facing companies when structuring their finances is to determine the 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 corporate decisions are dictated by managers and shares of the company closely held (Dimitris, and Psillaki, 2008). Even where shares are not closely held, 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 are left to themselves and pursue interest different from owners of equity (Dimitris, and Psillaki, 2008).

The difficulty facing firms in Nigeria has to do more with financing, that is, whether to raise debt or equity capital. The issue of finance is so important that it has been identified as an immediate reason for business failing to start in the first place or to progress (Ogebe, Ogebe & Alewi, 2013). Thus it is necessary for non-financial firms in Nigeria to be able to finance their activities and grow over time, if they are ever to play an increasing and predominant role in creating value added, as well as income in terms of profits. Therefore, given such a scenario, the study was motivated to examine the determinants of capital structure of companies in Nigeria's non-financial firms.

1.1: SIGNIFICANCE OF STUDY

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 has on an organization's ability to deal with its competitive environment. A company can finance investment decision by debt or equity. This is known as financing decision which could affect the debt- equity mix of firms. The debt-equity mix has an overall implication for the shareholders earnings and risk which will in turn affect the cost of capital and market value of the company. It is therefore imperative for financial managers of firms to determine the proportion of equity capital and debt capital (capital structure) to obtain the debt financing mix that will optimize the value of the firm that is, an optimal capital structure.

While various researchers have incorporated firm specific factors like size, profitability, the level of growth opportunities and tangibility into their model, this study has contributed to literature by examining firm-specific factors that influence determinants of capital structure of Nigerian non-financial firms from the view point of their capital structure choices. This has helped in the understanding of the impact of institutional factors on Nigerian firms' capital structure choices and how it affects their performance and at the effect of variables in determining the capital structure of a firm. Therefore, this study is significant as it contributes to time series data in a panel data framework specific to Nigeria as a case study. It has also helped to improve on previous studies in terms of techniques used in the analyses of the data of Nigerian non-financial firms, with the application of panel data estimation model on a sample secondary data. In effect, the result obtained from the study would provide information to researchers, Chief Executive Officers of Non – Financial Firms and finance managers in Nigeria and allied developing countries of Africa to better understand the determinants of capital structure of Nigeria's non-financial firms.

1.2: OBJECTIVE OF THE STUDY

The main objective of this study is to empirically examine the factors that determine the capital structure of Nigerian non-financial firms of selected companies listed on the Nigerian Stock exchange and assessing the extent of their liquidity, growth and profitability using the secondary data obtained for S&P Capital IQ database.

1.3: THEORETICAL FRAMEWORK OF THE STUDY

The theoretical framework has been limited to three of the most accepted theories within the area of capital structure. The theoretical framework for the study consists of the Modigliani and Miller theorems, the tradeoff theory, Pecking order and Agency theory.

The Modigliani and Miller (1958) theory of gearing has come to be one of the most referenced literature within the area of capital structure. Their findings have constituted a reference point for most researchers within the area and with new studies. Their main findings revealed how capital structure is influencing company's performance. If the crucial conditions of a perfect capital market are fulfilled Modigliani and Miller (1958) argue that the capital structure is irrelevant both for the value of the firm and for the weighted average cost of capital. Modigliani and Miller later published a revised version of their irrelevance theorem in 1963 called "*A Correction*" which incorporates taxes (Kaplan Financial Knowledge Bank, n.d.).

The Tradeoff Theory starts with the assumptions of the Modigliani and Miller theorem with taxes but do incorporate the cost of financial distress and bankruptcy (Chandrasekharan, 2012). When a firm starts taking more debt its tax shield increases and gains a higher risk of bankruptcy as the firm becomes more sensitive to losses. The tradeoff theory predicts that the bankruptcy costs pushes firm to use less leverage whereas agency cost of free cash flows and tax advantages encourage firms to use more (Fama and French, 2000). The theory further states that firms with lower and more volatile earnings have higher expected bankruptcy costs and less use of a tax shield, which pushes firms with lower profitability to use a higher degree of equity (Myers, 1977). In addition, Myers (1984) also claims that firms with tangible assets tend to take on more debt than firms with intangible assets. The tradeoff theory is, in contrast to Modigliani and Miller's theorem (1958), which is said to advocate the belief of an optimal capital structure.

The Pecking Order Theory by Myers and Maljuf (1984) tries to explain, from an information asymmetry perspective, why corporate management choose to finance their assets with one source of finance above another. The different sources of financing are internal funds, debt and new equity. The theory further states that the corporate management prefers to fund their investments with internally generated funds instead of externally generated. The essence of the pecking order theory outlines that, in contrast to the tradeoff theory, profitable companies should have a high solvency whereas less profitable firms should have lower (Myers, 1984).

The Agency Cost Theory suggests that there exists an optimal level in capital structure than can minimize the agency costs. This theory studies the impact of debt on sub-optimal managerial decision making. The important perspective here is the free cash flow approach advanced by Jensen (1986). The approach postulates that high leverage leads to increase in firm value, despite the threat to financial distress, when a firm's operating cash flows exceeds its profitable investment opportunities.

Hence, the theoretical framework of these theories are explained as part of literature review, and at the discussion of findings of the study in reference to the selected non-financial firms of Nigeria.

1.4: RESEARCH QUESTIONS

This study seeks to answer the following research questions. Stating these questions provides guidelines and focus on the objectives of the study, a common practice in business quantitative research (Lussier, 2011).

- What is the relationship between leverage ratios and size?

- What is the relationship between leverage ratios and return?
- What is the relationship between leverage ratios and growth?
- What is the relationship between leverage ratios and tangibility?
- What is the relationship between leverage ratios and liquidity?
- What is the relationship between leverage ratios and dividend?

1.5: RESEARCH HYPOTHESES

The following alternative hypotheses were stated to test the theories', relevance and determinants of capital structures of Nigeria's selected non – financial firms:

H1: There is a positive relationship between leverage ratios and size

H2: There is a positive relationship between leverage ratios and return.

H3: There is a negative relationship between leverage ratios and growth.

H4: There is a positive relationship between leverage ratios and tangibility.

H5: There is a positive relationship between leverage ratios and liquidity.

H6: There is a positive relationship between leverage ratios and dividend.

The data analysis allowed the confirmation and acceptance of the above hypotheses, which are discussed in the data analysis and discussion sections.

1.6: LIMITATION OF THE STUDY

The focus of this study is limited to selected Non-Financial firms' in Nigeria and within 2000 - 2012. However, the study constraints / limitations were basically on number of companies used

in the study as only non- financial quoted companies whose annual report were available and considered. Given the great number of the possible determinants of capital structure it is difficult to isolate the effect of inventories even by using large samples and advanced methodologies. Other limitations for this study are time constraint and limited availability of some of the data for the research work.

1.7: STRUCTURE OF THE STUDY

The study is organized as follows: Chapter I examined the introduction in the specific narrative on research preambles as background of the study, objective of the study, research questions, significance of the study, theoretical framework and postulated hypotheses, Chapter II briefly reviews the literature on the subject and sets the hypothesis for empirical investigation, Chapter III discusses the methodology and data base, Chapter IV presents the data analysis and interpretation of results and Chapter V provides the summary, conclusion and recommendations.

CHAPTER II

REVIEW OF LITERATURE AND HYPOTHESIS

The chapter reviews the literature on the subject and relates to the hypothesis reiterated earlier. Synopsis of the review includes three basic theories regarding capital structure: 'trade-off' theory', pecking order theory and agency theory of debt. The variables reflecting these theories are discussed in the following paragraphs.

Modigliani and Miller (MM) Theory (Modigliani and Miller, 1958) illustrates that under certain key assumptions, firm's value is unaffected by its capital structure. Capital market is assumed to be perfect in Modigliani and Miller's world, where insiders and outsiders have free access to information; no transaction cost, bankruptcy cost and no taxation exist; equity and debt choice become irrelevant and internal and external funds can be perfectly substituted. The M-M theory argues that the company's productive activity is independent of its method of financing. The theory argue further that a firm should have the same market value and the same weighted average cost of capital at all capital structure levels because the value of a company should depend on the return and risks of its operation and not on the way it finances those operations (Modigliani and Miller, 1958).

Once these fundamental assumptions are relaxed, capital structure may become relevant. Subsequently in 1963 when the corporate tax was included in the model, it was found that theoretically the value of a firm should increase with debt because of interest tax shield (Modigliani and Miller, 1963). But with the increase of debt for higher tax shield increases also the bankruptcy cost especially when profitability is low and fluctuating. If these key assumptions

are relaxed, capital structure may become relevant to the firm's value. So, research efforts have been contributed to relaxing the ideal assumptions and describing the consequences. This theory was criticized on the ground that perfect market does not exist in real world. Attempts to relax these assumptions are particularly the no bankruptcy cost and no taxation led to the 'trade off' theory of capital structure (Chandrasekharan, 2012).

Myers (1984) proposed the Trade-off Theory that supports the relevance of capital structure. This theory postulates an optimum debt level or target level – at which marginal increase of present value of tax saving is just offset by the same amount of bankruptcy cost. It suggests that firms have optimal capital structure and they move towards the target. It further emphasized that when debt is employed in capital structure, firms are faced with the challenges of tax benefit and bankruptcy cost, thus the need for trade-off between the two (Myers, 1977; 1984). Though exact target debt level may not be determined objectively in a given situation, the theory explains the fact that there is a limit to debt financing and the target debt varies from firm to firm depending on profitability, size and composition of assets deployed risk (fluctuation in profitability), growth and so on. Under trade-off theory, the firms with high growth opportunities should borrow less because it is more likely to lose value in financial distress (Myers, 1984). In addition trade-off theory predicts that safe firms i.e. firms with more tangible assets and more taxable income to shield, should have high debt ratios. While risky firms i.e. firms with more intangible assets that the value will disappear in case of liquidation, ought to rely more on equity financing (Myers and Majluf, 1984). In terms of profitability, trade-off theory predicts that more profitable firms should mean more debt serving capacity and more taxable income to shield; therefore, a higher debt ratio will be anticipated.

The Pecking Order Theory is a popular capital structure theory which usually explains why internal finance is much more popular than external finance and why debt is classified as the most attractive external finance option. The theory basically suggests that companies with high profitability may use less debt than others because they have less need to raise funds externally and because debt is the 'cheapest' and most 'attractive' external option when compared to other methods of capital sourcing. Pecking order theory is really based on information asymmetry and when information differences exist between managers and investors issuing high risk securities, it will involve large information costs (Alkatab, 2012; Chandrasekharan, 2012; Pettit and Singer 1985). These costs are typically seen in the dilution of existing shareholders interests in a company if new shares are issued when they are undervalued. The pecking order theory infers that because of the high information cost correlated to the new high risk securities, companies will generally only issue equity as an absolute last resort. It suggests that companies always follow a hierarchical pattern in financing sources such that internal funds are always preferred to external ones and borrowing is preferred to issuing risky securities. This theory explains information asymmetry as the battle ground for most fundamental investors as it involves the discrepancy between what insiders of a company know (managers) versus what those external to the company do (such as shareholders and lenders) (Alkatab, 2012; Chandrasekharan, 2012). The theory tries to capture the costs of asymmetric information. It states that companies prioritize their sources of financing (from internal financing to equity) according to the law of least effort, or of least resistance, preferring to raise equity as a financing means 'of last resort' (Myers & Majluf 1984). Hence, internal financing is used first when that is depleted, then debt is issued; and when it is no longer sensible to issue any more debt, equity is issued. This theory maintains that businesses adhere to a hierarchy of financing sources and prefer internal financing when

available, and debt is preferred over equity if external financing is required (equity would mean issuing shares which meant 'bringing external ownership' into the company). Thus, the form of debt a firm chooses can act as a signal of its need for external finance. The pecking order theory is popularized by Myers (1984) when he argues that equity is a less preferred means to raise capital because when managers (who are assumed to know better about true condition of the firm than investors) issue new equity, investors believe that managers think that the firm is overvalued and managers are taking advantage of this over-valuation. As a result, investors will place a lower value to the new equity issuance.

The third theory is the Agency cost theory. This theory suggests that there exists an optimal level in capital structure that can minimize the agency costs (Alkatab, 2012; Chandrasekharan, 2012). In the framework of this theory, there is a strand of literature that studies the impact of debt on sub-optimal managerial decision making. One important perspective here is the free cash flow approach advanced by Jensen (1986).

To mitigate the agency problems, various methods have been suggested. Jensen and Meckling (1976) suggest either to increase the ownership of the managers in the firm in order to align the interest of managers with that of the owners or increase the use of debt which will reduce the equity base and thus increase the percentage of equity owned by managers. Jensen (1986) suggests that debt would be used as a controlling device to motivate managers to distribute free cash among shareholders instead of wasting it on inefficient activities. Grossman and Hart (1982) suggest that the use of debt increases the chances of bankruptcy and job loss that further motivate managers to use the organizational resources efficiently and reduce their consumption. In addition, Alkatab, (2012) and Chandrasekharan, (2012) explained other three types of agency costs which can help explain the determinants of capital structure.

Asset substitution effect: As Debt-Equity ratio increases, management has an increased incentive to undertake risky (even negative Net Present Value) projects. This is because if the project is successful, shareholders get all the upside, whereas if it is unsuccessful, debt holders get all the downside. If the projects are undertaken, there is a chance of firm value decreasing and a wealth transfer from debt holders to shareholders.

Underinvestment problem: If debt is risky (e.g., in a growth company), the gain from the project will accrue to debt holders rather than shareholders; thus, management has an incentive to reject positive net present value projects, even though they have the potential to increase firm value (Alkatab, 2012; Chandrasekharan, 2012).Free cash flow: unless free cash flow is given back to investors, management has an incentive to destroy firm value through empire building and perks etc. Increasing leverage imposes financial discipline on management.

Both theoretical and empirical capital structure studies have generated many results that attempt to explain the determinants of capital structure. As a result of these studies, some broad categories of capital structure determinants have emerged. Titman and Wessels (1988), and Harris and Raviv (1991), however, point out that the choice of suitable explanatory variables is potentially contentious. Most capital structure studies to date are based on data from developed countries, for example, Rajan and Zingales (1995) use data from the G-7 countries.

In this study, to identify which of the capital structure theories is relevant in the Nigerian context, the concentration is on four key variables identified in studies by Rajan and Zingales (1995). The selected explanatory variables are: size, profitability, the level of growth opportunities and tangibility. These four explanatory variables are identified as important factors in the G-7 countries (Rajan and Zingales, 1995), as well as in ten developing countries (Booth, Aivaziam, Demirguc-Kunt, and Maksimovic, 2001).

Size (SIZE)

The trade-off theory predicts an inverse relationship between size and leverage. Rajan and Zingles (1995) argued that larger firms tend to be more diversified and less likely to fail. Larger firms are expected to incur lower costs in issuing debt or equity. Consistent with the trade-off theory Alderson and Betker (1995) using log (assets) as proxy for firm size found a positive relationship between leverage and asset. Titman and Wessels (1988) and Wiwattanakantang (1999) using log (sales) as proxy for firm size found positive but insignificant relationship between leverage and firm size. This study used market capitalization (MC) as a proxy for size.

Profitability (RETURN)

Profitability is computed as the company's earnings before interest and tax to total assets. As it is suggested by the pecking-order theory, that highly profitable companies tend to reduce their external funding; which at the end signals to creditors that they have low bankruptcy risk (Titman and Wessels, 1988; Rajan and Zingales, 1995, cited in Alkhatib, 2012, p.80). In other cases, profitable firms can issue debt at low rates of interest since they are seen as less risky by the creditors; furthermore, profitable firms are able to generate large earnings use a lesser amount of debt capital than firms that make little profit (Titman and Wessels, 1988; Rajan and Zingales, 1995; Abor, 2005; cited in Alkhatib, 2012, p.80). Additionally, profitable companies are inclined to decrease information asymmetry to creditor, investors and interested users through the use of profitability (Myers; 1984). Therefore, there is a relationship between leverage and profitability (Tong and Green; 2005; cited in Alkhatib, 2012, p.80)

Growth Opportunities (GROWTH)

The trade-off model predicts that companies with good investment opportunity have less leverage because they have strong incentives to avoid under-investment and asset substitution that can arise from stockholder/bondholder conflicts. Increase of debt should enhance volatility of earning because of interest expenses as such there should be a negative relation. Also, Hirota (1999) found a negative relation between the two. Rajan and Zingales (1995) used market to book value ratio as measure of growth opportunities available to enterprise. This is common with most of the studies which tend to apply proxies found that with decrease in growth opportunities, leverage increases. The finding is consistent with trade-off theory. In reality it was found that a number of successful firms with high profitability hardly go for debt financing. This leads to an alternative theory of finance called "pecking order" theory developed by Myers (1984). The origin of pecking order theory is asymmetric information – implying that the managers know more about a company's prospect than the outside investors. The theory suggests that if a firm issues equity shares to finance a project, it has to issue shares at less than the prevailing market price. This signals that the shares are overvalued and the management is not confident to serve the debt if the project happens to be financed by debt. Thus, issue of shares is 'bad news'. On the contrary if external borrowing is used to finance the project, it sends a signal that the management is confident of the future prospect of serving debt. Hence debt is preferred over shares in financing decision.

Tangability (TANG)

Tangibility is computed by dividing fixed assets by total assets. It is a fundamental element of determining the firm's leverage. Firms with little tangible assets generally have low leverage ratio and therefore would be difficult to collateralize such assets to raise additional

funds accompanied with the risk of bankruptcy (Alkhatib, 2012, p.80). Tangible assets are less subject to informational asymmetries and they have a greater value than intangible assets. Firms with large volume of tangible assets are more likely to collateralize their assets to raise additional funds with little risk due to the investments diversifications which at the end reduces the risk of bankruptcy (Jensen, 1976; cited in Alkhatib, 2012, p.80). Furthermore, Rajan and Zingales, (1995) added that when firms offer tangible assets as collateral, moral hazard problems are minimized. As the carrying amount of assets that can be offered as collateral security increases – debt capacity increases. The trade-off theory predicts a positive relationship between measures of leverage and proportion of tangible asset. Consistent with trade off theory (Rajan and Zingles, 1995; Jordon, Lowe and Taylor, 1998; Wiwattanakantang, 1999 and Hirota, 1999) found a positive relation between tangible assets and debt.

Liquidity (LIQ):

Liquidity (LIQ) is measured as current assets minus current liabilities. Liquidity represents the capital amount that is available for use as an investment and or expenditure. It also shows the ability of a firm to meet their current liabilities as and when they mature (Ross, 1977; cited in Alkhatib, 2012, p.80). Excessive amounts of current assets owned by a firm would perhaps increase the chances of internal funding resulting in a relation between leverage and liquidity (Myers, 1984). Furthermore, sufficient liquidity has an impact on the financial strength of a firm Bei and Wijewardana (2012). Several studies found a statistical relationship between liquidity and leverage (Harris and Raviv; 1990; Rajan and Zingales, 1995; Titman and Wessels, 1988; cited in Alkhatib, 2012, p.80) In the case of liquidity and leverage, the trade-off theory believes that a positive relationship exists between leverage and liquidity because higher liquidity ratio

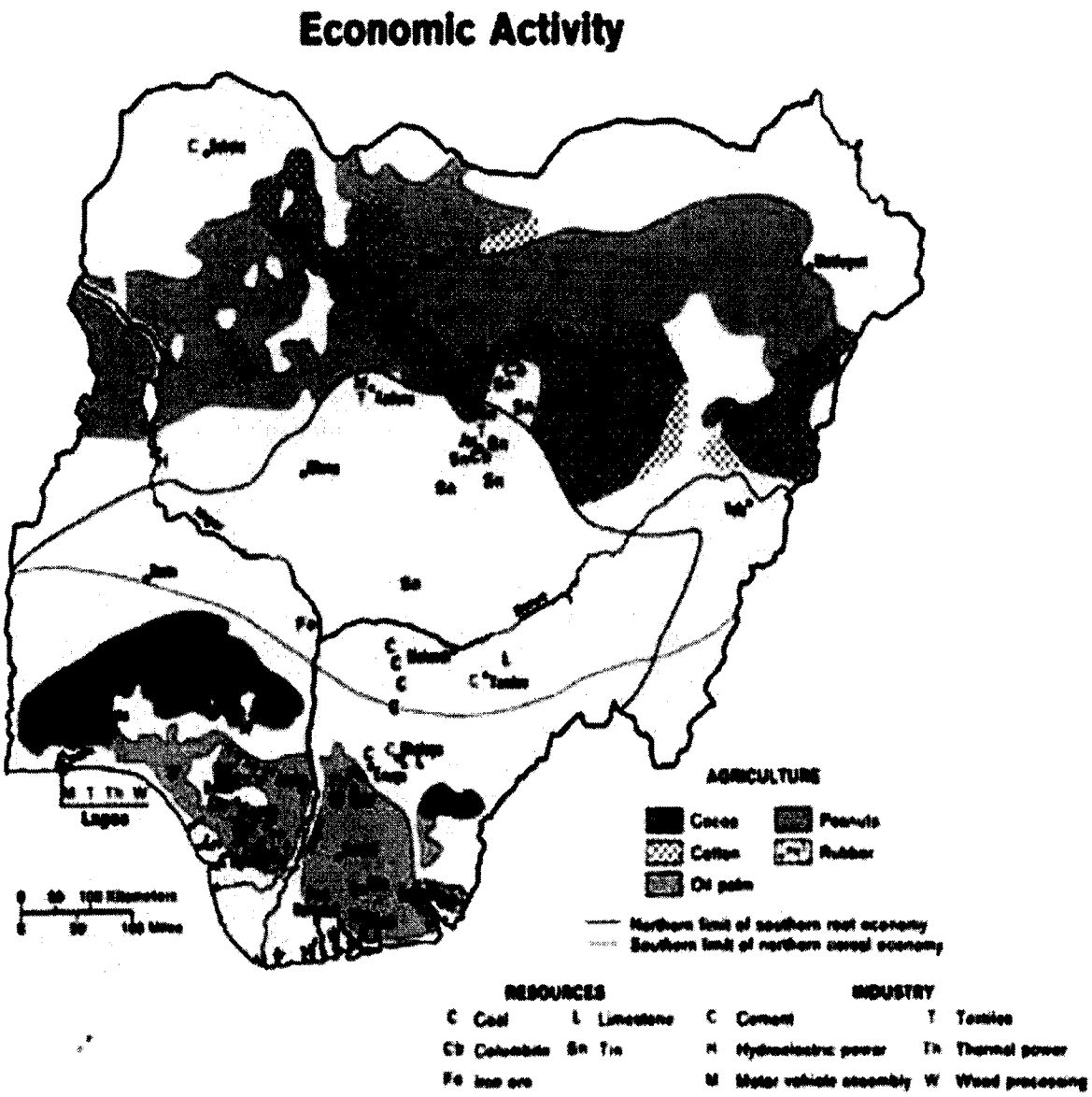
can support a relatively higher debt ratio due to greater ability of a firm to satisfy short-term contractual obligations on time.

Dividend (DIV)

Dividend as a supplementary variable and a measure of liquidity is also significant. Dividend payout is not commonly included in empirical studies on the determinants of capital structure choice. The dividend policy is always related to the investment decision firm. According to the pecking order theory, firms aim to finance investments initially from retained earnings rather than using external funds. This tendency led firms to follow and adopt dividend policy accordingly. Furthermore, Bhaduris (2002) suggested that dividends are the signal of finance health to outsiders. A firm with a constant stream of dividends will face less asymmetric information when entering the equity market. Dividend payments decrease the amount of internal funds and increase the need for external financing. Dividend policy allows for releasing of resources when a firm has no profitable projects and conveys information about a firm's future expectations to capital markets. There is a positive relationship between payout ratio and debt (Frank and Goyal, 2004).

Implication of Review to Nigerian Study

Figure 2.1: Map of Nigeria showing Economic Activity



Source: Aregheore, M. E. (2005). Nigeria. Country's Pastures/Forage Resource profiles. http://www.fao.org/ag/agp/AGPC/doc/Counprof/nigeria/nigeria.htm

The Nigerian business industry has been in existence ever since the colonial era to date. These industries have transformed over time with certain permanent features like ownership characteristics of firms, firm size, market structure, output and nature of product. In Nigeria,

most businesses in the formal sector are not publicly listed. (Development policy Centre, 1999 as cited in Uwubanmwen, 2001), in a survey of enterprises in six randomly selected states found 13.3% of the enterprises not listed on the Nigerian Stock Exchange, while 48.5% are limited liability companies operating in the formal sector. 87% of the formal sector businesses may be operating outside the legislation governing the capital market (Development policy Centre, 1999 as cited in Uwubanmwen, 2001). Ownership characteristics of Nigerian firms show that the composition of listed securities also changed rapidly during the period. In 1990, government stock's share was 19.82%, industrial loan stock 19.82% and equity 60.36 % (Uwubanmwen, 2001). Also, in 1995, government's share was 12%, industrial loan stock was 22% and equity 66%. By 2005, government stock stood at 8%, industrial loan stock 18% and equity 74%, a similar trend was observed as time passes, to 2009, government stock grew exponentially, to 27%, industrial bond and loan however declined to 2% which can be accounted to the high inflation and political-economic unhealthiness of the nation, however, as equity remained relatively stable at 71% (CBN, 2009 as cited in Uwubanmwen, 2001). The phenomenal growth of the capital market during the last four decades was brought about by government legislation, monetary policies and technical advancement in stock operations privatization policies and exercises (1972,1977,1989-1993, 2001 and likely 2003), recapitalization for banks (2004-2005, electronic processing/automated trading activities and on-line trading.(Development policy Centre, 1999 as cited in Uwubanmwen, 2001). The market capitalization as at 1995 stood at N180.31 Billion, N472.30 Billion in 2000 and N2, 900.10 Billion in 2005. That is an increase of 161.9% and 574.03% respectively, while at the end of September 2012, there were 202 listed companies with a market capitalization of US$52 billion (Uwubanmwen, 2001).

The market structure of Nigerian industry is such that few large firms often control the market share in most of the industry i.e. oligopolistic market structure in most of the industry. More than 70% of the market shares are usually controlled by few leading firms (Uwubanmwen, 2001). The market powers allow them to form barrier to entry for many new entrant that can come with very large scale of operation like the existing leading firms. The banking sector like bigger Non- Financial Firms for example is controlled by few leading banks that have been in existence for a long period of time, an example is the telecommunication industry that has been deregulated as well as the beverage industry with same oligopolistic feature (Uwubanmwen, 2001).

Systematic and organizational research revered firms in Nigeria industry often produce goods that are close substitute (Ogbulu and Emeni 2012; Ogebe, Ogebe and Alewi 2013). This often led to serious and at times unethical competition among the firms. Some of the firms even behave in such a way that the interest of the consumers becomes not well protected. The firms engage in price competitions, advertisement and promotions just to ensure they gain more customers. These market conducts arises from the market structure and the nature of product that are close substitute which often serve as barrier to entry to new firms as most of the potential new entrant have to come to the industry to be the same or even at higher cost with existing firms (Muritala, 2012; Adeyemi and Oboh 2011). These practices are discouraging to investors that may not have a strong and huge financial backing, thereby reducing the output level of the economy and revenue the government could have realize if these firms come to existence. It is evident that the structure of the Nigeria business industry is such that ownership concentration is not diluted until recent time when government ownership is reducing due to privatization of most

government companies and domestic individual investor are taking over government shares in most of these firms (Muritala, 2012; Adeyemi and Oboh 2011).

Similarly, the Nigerian industry has certain permanent features in term of market structure, output size, and nature of products, ownership characteristics and size distribution of firms. This has wide implication for the conducts and performance of firms that make up the Nigerian industry (Ogebe, Ogebe and Alewi 2013). There are a few studies on the impact of capital structure on performance of Nigerian companies. Ogbulu and Emeni (2012) in their work using 110 firms over a period of five years (2000 – 2005) identified age and size of firms as the major significant determinant of capital structure of these firms. Furthermore, Hassan (2011) investigated in to the determinants of capital structure in listed insurance firms in Nigeria and found results of the study consistent with the propositions of the Pecking Order Theory. In the Nigerian non-financial firms and banking sector, Iwarere and Akinyele (2010) and Chandrasekharan (2012) carried out empirical survey research to ascertain the basic determinants of capital structure in the banking sector, a survey of twenty five banks revealed that growth opportunities, profitability, tangibility, issuing cost, tax economics associated with debt financing, risk/cost of financial distress and earnings per share were the major determinants of capital structure growth.

According to Adesola (2009) the leading conclusion is that capital structure of quoted firms in Nigeria is significantly influenced by the return on asset (profitability) and growth. Both empirical results of Iwarere and Akinyele (2010) and Adesola (2009), support both pecking order theory and static trade off theory as playing significant role in corporate financing choice of quoted firms but with the pecking order exerting more influence.

Salawu and Agboola (2008) reports profitability, tangibility, and size as being the major determinants of capital structure particularly in large firms in Nigeria. Barine (2012) research sought to ascertain the determinants of capital mix, which was based on the results from the regression analysis of data obtained from seventeen financially successful quoted firms in Nigeria show that the mix is positively determined by cost of equity, existence of debt tax shield, covenant restrictions in debt agreements, firm dividend policy, competitor's capital mix and profitability; and negatively by cost of debt, parent capital structure determinants of quoted firms in Nigeria. Ogebe, Ogebe and Alewi (2013) investigated the impact of capital structure on firm performance in Nigeria from 2000 to 2010.

Oyesola (2007) examined an empirical analysis of the capital structure of selected quoted companies in Nigeria between 1990 to 2004 the analyses are performed using panel data of 50 non - financial firms (NFFs). The authors' findings confirmed some prior findings and extend the analysis using additional firm characteristics such as non-debt tax shields, dividend and a decomposition analysis of firm leverage which are positively correlated with leverage. The finding is consistent with Pecking Order Theory (A semi-strong Pecking Order Theory).

Mohammed (2013) and Chandrasekharan (2012), studied the impact of agency cost on capital structure of Nigeria listed companies for the period of 200-2006, using Dynamic Panel Model. The finding showed an inverse relationship between capital structure and agency cost of Nigerian firms. The study is consistent with the agency cost on capital structure that exists in Nigerian firms.

Bassey, Arene and Okpukpara (2014) investigated the determinants of capital structure of agro-listed firms in Nigeria, using data generated from the financial statements of 28 agro allied firms on the Nigerian Stock exchange from 2005 – 2010, the major tool for the analysis

was the Ordinary Least Square. The results showed that large sized firms depend on long term debt for their finances because of high tangible assets at their disposal as collateral, Firm age was positively related to long term debt ratio. The estimated growth co-efficient was positively and significant, the results suggest the pecking order theory dominates the financial behavior of listed agro allied firms in Nigeria.

Based on the above discussion of proximate determinants of leverage, the following behavioral equation was estimated for the cohort of 27 Nigerian non-financial firms firms between 2000 to 2012.

$$LEV_{it} = \alpha_0 + \alpha 1\, SIZE_{it} + \alpha 2\, RETURN_{it} + \alpha 3\, GROWTH_{it} + \alpha 4\, TANG_{it} + \alpha 5\, LIQ_{it} + \alpha 6\, DIV_{it} + \varepsilon_t$$

It is hypothesized that $\alpha 1 < 0;\ \alpha 2 < 0; \alpha 3 < 0;\ \alpha 4 > 0; \alpha 5 > 0; \alpha 6 > 0$

The alternative hypotheses to test whether the static trade-off theory and other theories are relevant to the Nigerian context are as follows:

H1: There is a positive relationship between leverage ratios and size

H2: There is a positive relationship between leverage ratios and return.

H3: There is a negative relationship between leverage ratios and growth.

H4: There is a positive relationship between leverage ratios and tangibility.

H5: There is a positive relationship between leverage ratios and liquidity.

H6: There is a positive relationship between leverage ratios and dividend.

CHAPTER III

METHODOLOGY AND DATA BASE

The chapter discusses the methodology and database used in the study. Section 1 discusses the database used in the study while section 2 discusses the methodology adopted for empirical investigation.

Database

Source of the data was based on quantitative secondary data, often used in business financial research (Chandrasekharan, 2012; Lussier, 2011). The study covered non- financial companies listed in the Nigerian Stock Exchange (NSE). Data from 27 non-financial firms for the period 2000 to 2012 were obtained from database of Standard & Poor's Capital IQ. The choice of data was based on its reliability, and validity, it is also considered the best source on developing countries by World Bank and IMF. The criteria used for choosing the companies were availability and quality of data for a time period of 13 years (2000 - 2012), an attempt to make the database of Nigerian non-financial firm as broader and more inclusive as much as possible. The data were averaged over the twele years to smooth the leverage and explanatory variables. The sample includes only the balance sheets of Nigerian non-financial firms as the balance sheets of the firms in the financial sector (bank, insurance companies, and investment trust) have a significantly different structure from those of non- financial firms and hence removed from the analysis to avoid bias, as the result may have a significant impact on a non-financial firm's financing decisions.

Methods of Estimation

The data used in this study is presented in ratios. Two different analytical techniques are employed in this study which included the use of descriptive statistics and an econometric technique of Panel Data method, as the descriptive statistics involve the use of mean, median, maximum and minimum value to evaluate the selected variables (Lussier, 2011). Other measures of descriptive estimates like the standard deviation and variance were also employed so as to see the degree of variability of these estimates. The regression model took the form of the Fixed Effects Model and the Ordinarily Least Square (OLS) model using SPSS in order to establish the most appropriate regression with the highest explanatory power, which is better suited to the data set employed in the study i.e. a balanced panel (Green, 2003; Chen, 2004; Salawu, 2007). The Ordinary Least Square (OLS) was used in the first instance, however in view of the weaknesses associated with it while the Fixed Effects Model (FEM) was secondly used to capture the performance of the firms considered in the study.

Panel Regression Analysis: Panel regression analysis is a regression that involves the combination of time series and cross sectional data: panel data. Panel data are said to be repeated observations on the same cross section, typically of individual variables that are observed for several time periods (Wooldridge, 2013). Panel data is an important method of longitudinal data analysis because it allows for a number of regression analyses in both spatial (units) and temporal (time) dimensions (Lussier, 2011). The spatial aspect refers to a number of cross-sectional units of observation, which could be countries, states, firms (as used in this study), commodities, and so on while the temporal aspect refers to regular episodic observations of a set of variables in the cross-section units over a particular period of time (i.e. 2000 – 2012). Panel data also provides a major means to analyze data longitudinally especially when the data are

from various sources and the time series are rather short for separate time series analysis (Lussier, 2011; Woodridge, 2013). Even in a situation when the observations are long enough for separate analyses, panel data analysis gives a number of techniques that can help examine changes over time common to a particular type of cross sectional unit.

The combination of time series with cross-section data made possible by the use of panel data regression technique, usually improve the degree of freedom and quantity of data which may not be possible when using only one of them (Gujarati, 2003).

The list of variables used in the empirical investigation of this research study is reported in Table 3.1.

Table 3:1 List of variables and Description

Variables	Description
LEVERAGE (LEV)	Total Debt to Total Assets
SIZE	Log of Market Capitalization of Equity
RETURN	Earnings before interest and tax to total asset
GROWTH	Market Value of equity to book value of equity
TANGIBILITY (TANG)	Book value of fixed assets to total assets
LIQUIDITY (LIQ)	Current assets minus Current Liabilities
DIVIDEND (DIV)	Dividend paid to book Value of equity

Source: Author's Data Analysis Computation, 2014 using SPSS

Methodology

The following behavioral equation discussed in chapter II is estimated for the cohort of 27 Nigerian firms for 2000 to 2012.

$$LEV_{it} = \alpha_0 + \alpha 1\, SIZE_{it} + \alpha 2\, RETURN_{it} + \alpha 3\, GROWTH_{it} + \alpha 4\, TANG_{it} + \alpha 5\, LIQ_{it} + \alpha 6\, NDTS_{it} + \varepsilon_t$$

It is hypothesized that $\alpha 1 < 0;\ \alpha 2 < 0; \alpha 3 < 0;\ \alpha 4 > 0; \alpha 5 > 0; \alpha 6 > 0$

In terms of empirical methodological frameworks, this research study presents estimate based on panel least squares and fixed effects model (Wooldridge, 2013). Hence the proceeding chapter provides data analysis and major findings based on 27 Non-Financial Firms of Nigeria derived from the S&P Capital IQ data from 2000 – 2012 as reflected on Nigeria's Stock Exchange.

CHAPTER IV

DATA ANALYSIS AND INTERPRETATION OF RESULTS

The chapter presents empirical results of the investigation. Section I discusses the descriptive statistics. The descriptive statistics of variables provides results of the behavioral equation discussed in chapter II and III. Section 2 presents in a chart form the analysis of the variables used in explaining the capital structure determinants for the 27 non-financial firms with discussion and Section 3 provides the interpretation of results.

Table 4.1: Descriptive Statistics of Nigerian Non-Financial Companies- 2000-2012

Statistics	Leverage	Size	Return	Growth	Tangibility	Liquidity	Dividend
Mean	22941.09	5.76	0.80	2.66	3.21	-1697.01	191.97
Median	8667.80	5.79	0.15	0.99	0.10	50.03	1.19
Maximum	673665.80	8.69	82.95	174.39	1007.39	23385.45	67390.06
Minimum	0	2.30	-4.43	-12.57	-56.11	-62626.30	-8.60
Std Dev.	52701.14	1.14	4.30	15.86	41.88	26067.66	2928.86
Skewness	7.60	-0.01	12.97	9.52	20.35	-16.60	20.10
Kurtosis	78.42	3.52	204.68	95.62	452.82	422.85	424.36

Source: Author's Data Analysis Computation, 2014 using SPSS

4.1: Descriptive Statistics

Table 4.1 reports the descriptive statistics of variables used in empirical investigation for Nigerian non- financial corporate sector during 2000 – 2012. The average size (Market Capitalization) and median size of Nigerian non – financial firms during 2000 – 2012 is relatively close, but there are firms which are large (as revealed by maximum value) and low (as revealed by minimum values) Skewness is Zero

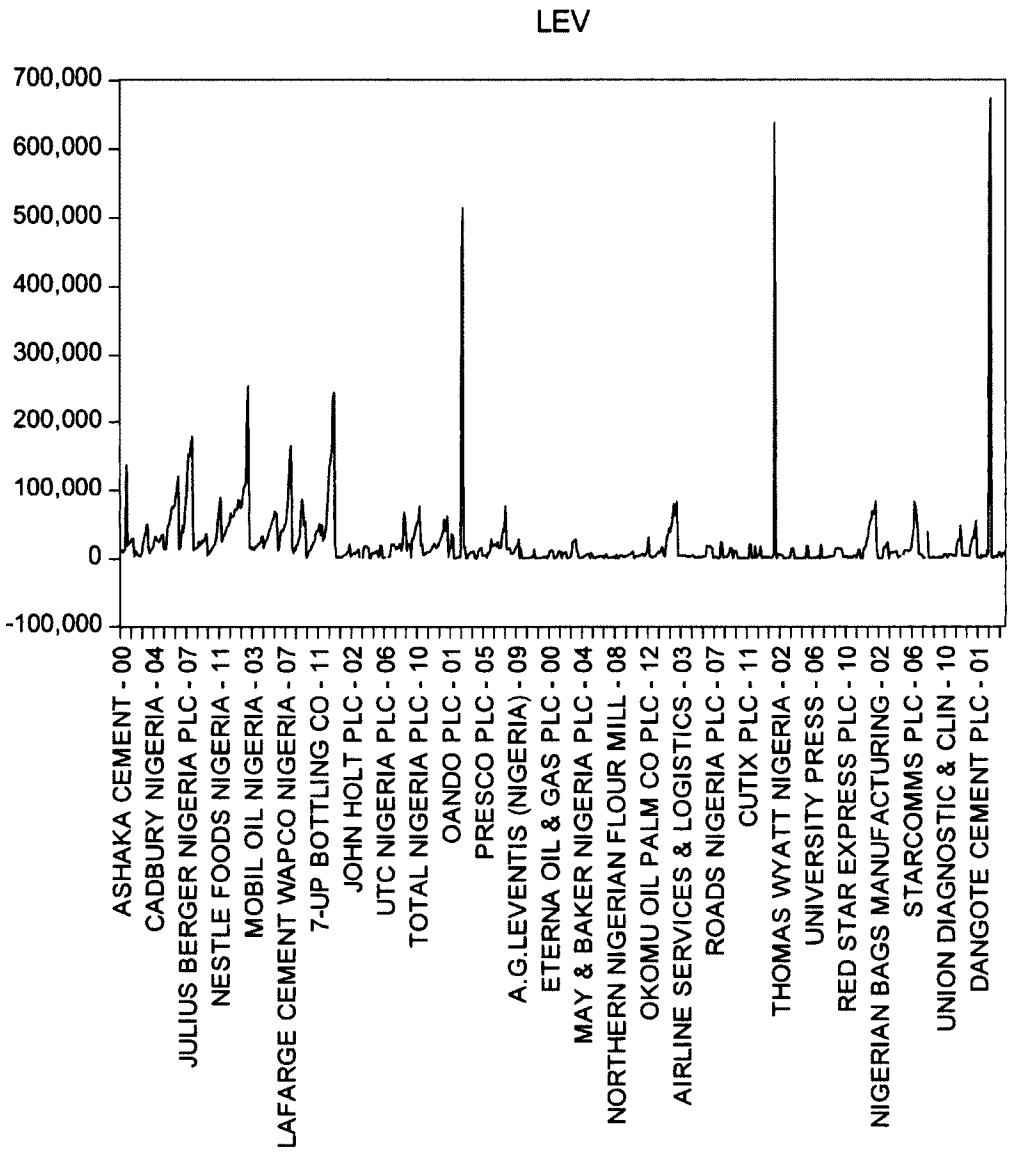
Leverage of Nigerian non-financial firms is quite varied. The mean leverage (total liabilities to total assets) is 22,941 as compared with median of 8667. The standard deviation is also quite high 52701. Skewness is positive (7.60) which indicates that most of the firm in Nigeria is tilted towards the right of the distribution. An alternate way of talking about a data set skewed to the right is to say that it is positively skewed. In this situation the data is skewed to the right because the mean is greater than the median.

The average return of (EBIT / Total assets) of Nigerian companies is 0.80 there are companies with very high return 89.95 (mostly Oil Companies) and low return as well (-4.45). The growth prospects of companies as revealed by ratio of market to book value of equity is high for Nigerian companies (average of 2.66 and a median of 0.99) some firms have high growth prospects (174) ; variation as revealed by standard deviation is also high (15.87).

The tangibility of companies (fixed costs to total assets) of Nigerian non – financial firms is also high (average of 3.21 and a median of 0.10) the liquidity of companies is negative (-1697)

Most of the Nigerian firms had negative liquidity (Chart 4.3).The negative liquidity of Nigerian non- financial firms with high leverage makes the investigation of proximate determinants of capital structure an interesting investigation. Moreover the Nigerian non – financial firms were high average 191, median 1.19) dividend (dividend to book value of equity)

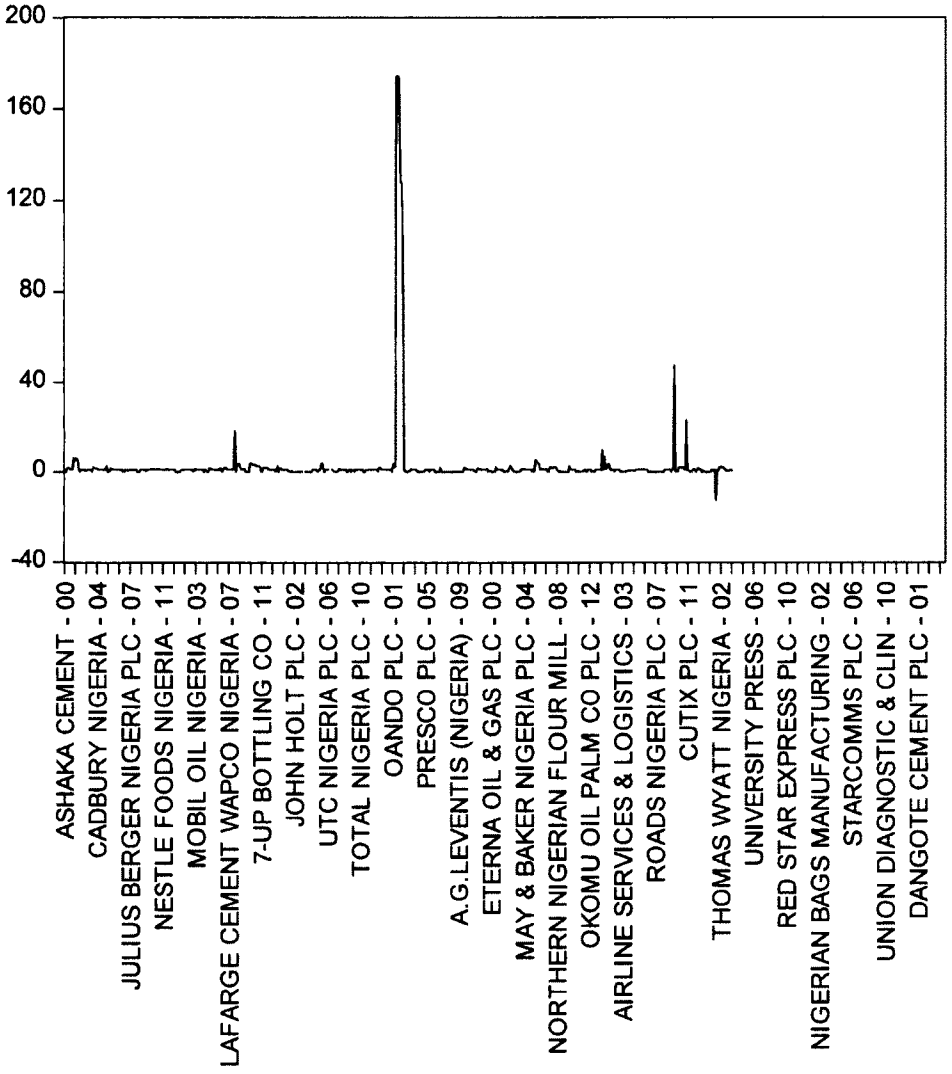
Chart 4.1: Leverage Ratio of Nigerian (non-financial) Firms-2000-2012



Source: Author's Data Analysis Computation, 2014 using SPSS

The chart 4.1 depicts the proxy used for calculating leverage which is the debt to the total assets ratio, the Y - axis represents the debt while the X – axis represents the total assets of Nigerian non-financial firms and the chart reflecting leverage of 3 firms to be quite high.

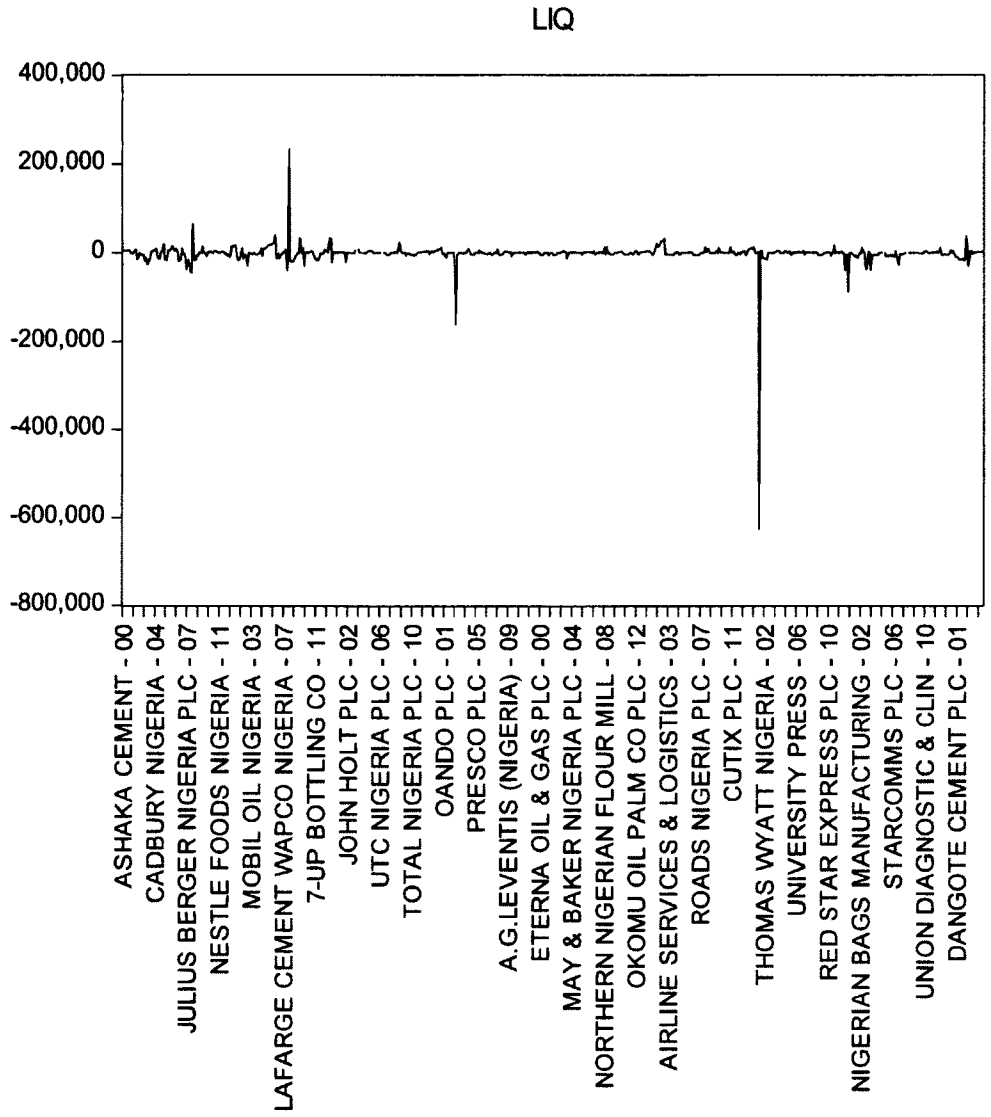
Chart 4.2: Growth Prospects of Nigerian (non-financial) firms: 2000-2012



Source: Author's Data Analysis Computation, 2014 using SPSS

The chart 4.2 depicts the proxy used for calculating growth which is market to book value ratio of equity, the Y - axis represents the market value while the X – axis represents the book value of Nigerian non-financial firms and the chart reflecting growth prospects of one firm to be quite high.

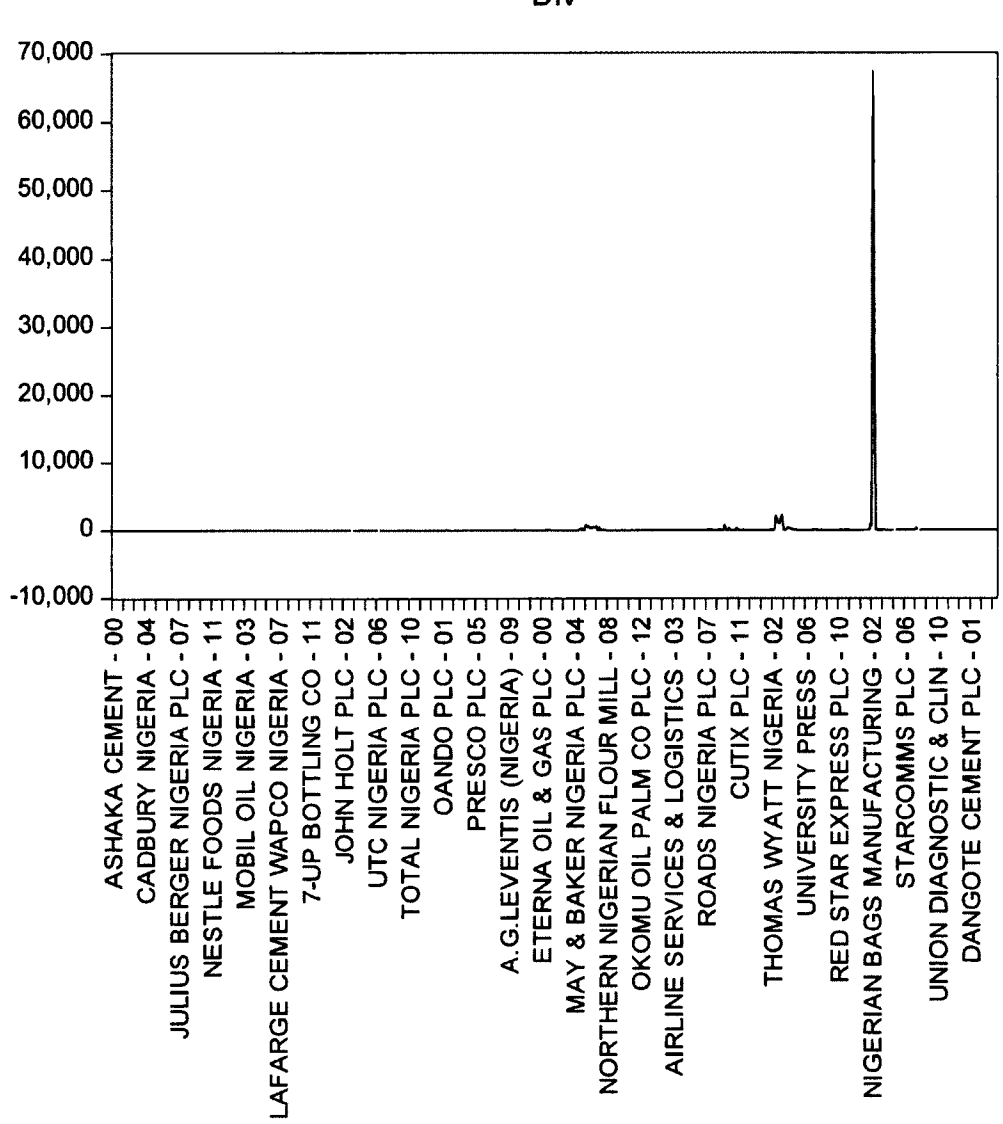
Chart 4.3: Liquidity of Nigerian (non-financial) firms: 2000-2012.



Source: Author's Data Analysis Computation, 2014 using SPSS

The chart 4.3 depicts the proxy used for calculating liquidity which is current assets minus the current liabilities, the Y - axis represents the current assets while the X – axis represents the current liabilities of Nigerian non-financial firms and the chart reflecting negative liquidity for 2 of the firms

Chart 4.4: Dividend Ratio of Nigerian (non-financial) firms: 2000-2012.



Source: Author's Data Analysis Computation, 2014 using SPSS

The chart 4.4 depicts the proxy used for calculating dividend ratio which is dividend to net profit, the Y - axis represents the dividend while the X – axis represents the net profit of Nigerian non-financial firms and the chart reflecting dividend payout of one of the firms to be quite high.

Table 4.2: Regression Results of the Determinants of Leverage of Nigerian Non-Financial Companies: 2000-2012

Independent Variables	Dependent Variable (LEV)	
	Panel regression	Fixed Effects
Constant	-35856.16 (-4.17)*	6610.74 (0.54)
SIZE	10654.37 (7.34)*	3383.43 (1.61)
RETURN	-1817.79 (-1.71)***	-111.11 (-1.26)
GROWTH	-163.75 (-1.58)	-804.47 (-6.74)*
TANG	-350.18 (-0.43)	1873.59 (0.26)
LIQ	-0.82 (-14.77)	-0.80 (-16.76)*
DIV	-8.57 (-1.00)	7.97 (0.81)
Diagnostics		
Adjusted R Square	0.32	0.59
F-Statistic	48.12*	15.42*

Note: Figures in brackets are 't' values.*,**,*** indicate statistical significance at 1%, 5% and 10% respectively.

Source: Author's Data Analysis Computation, 2014 using SPSS

4.2: Discussion of Results and Major Findings

Table 4.2 presents of the regression equation derived in chapter II and III (methodology section). An estimation of the panel regression (ordinary least squares) and fixed effects model. For the purpose of this research the preference is for the fixed effects model as it accounts for heterogeneity in companies in the cohort of 27 companies used for empirical results.

The fixed effects model showed that the main determinants of leverage of Nigerian non-financial firms are growth prospects (GROWTH) and liquidity of the companies. The growth prospects variable was hypothesized to be negative and statistically significant at 1% level. The empirical results also validate this hypothesis. Market-to-book value was used for equity as a proxy for growth opportunities among Nigerian non-financial companies. The negative sign for the growth variables in the Nigerian non-financial firm indicates that growing companies do not rely on debt to finance their new investment opportunities. This may imply that growing companies have enough internal funds for their financing needs but, more likely, it may imply that as growing companies tend to be more risky, they prefer to use less debt. This is consistent with the trade-off theory. In fact, Rajan and Zingles (1995) found similar results for developed countries. Similarly, the study for Nigeria by Salawu and Agboola (2008) also found similar results.

Another interesting result is the negative coefficient of liquidity (LIQ) with leverage. Based on existing literature which was hypothesized a positive relationship in our behavioral equation. But the empirical results negated this result and this co-efficient is statistically significant. Nigerian companies (non-financial) suffer from low liquidity (current liabilities are more than current assets). Lower the liquidity, higher is the need to borrow (leverage) and finance growth.

If the static trade-off theory holds, significant positive slope coefficients are expected for the other independent variables (SIZE, RETURN and TANG and DIV). For the Nigerian Non-financial firms there is strong evidence for the static trade-off theory as evidenced by the coefficients for size, return, tangibility and dividend. Although the variables for size, return, tangibility and dividend are not statistically significant. These variables were retained in the behavioral equation as omission of these variables could lead to omitted variable for the estimated coefficients bias and lower explanatory power for the model.

The positive relationship between size, return, tangibility and dividend Leverage which gives support for the static trade-off theory to be evident in the case of Nigerian Non-financial Firms.

Overall, the fixed effects model has an adjusted R square of 0.59 which is relatively high in panel estimation models; normally in panel models the corresponding R square for most of the empirical models is between 0.04 to 0.20.

Nigerian non-financial firms have very high leverage, with very low Liquidity. Companies pay very high dividends to investors. The empirical analysis shows that growth prospects and liquidity are the statistically significant variables influencing leverage of Nigerian non-financial firms. The negative coefficient for growth opportunities indicates that companies with high growth prospects use less leverage. This is consistent with the trade-off theory and earlier empirical results (Rajan and Zingles 1995).

Hence, the study data analyses provide a confirmation of the studies hypothesis as well as respond to pertinent research questions, thereby providing an empirical conclusion of the study in the preceding chapter.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

Summary

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 firms' activities. The findings of this research contribute towards a better understanding of the determinants of capital structure of Nigerian non-financial firms. The study employed descriptive econometric analytical tools in studying 27 non-financial firms that are listed on the Nigerian Stock Exchange for the period 2000 to 2012 (S&P Capital IQ). Hypotheses, based on comparing the relationships of the four explanatory variables representing the determinants which are profitability, growth, tangibility and size, were developed to test which capital structure theories best explained Nigerian non-financial firms' capital structure. The results suggest the static trade-off theory to be the pertinent theory. The lack of high-quality databases constituted a major barrier in conducting capital structure research in Nigeria. Consequently, there is a need to develop validated databases as more data becomes available in the future. Using such database can help to examine and identifying additional variables that could influence the non-financing and financing behavior of Nigerian companies. The analyses were performed using panel data.

A unique result of this study is the role played by liquidity in leverage of Nigerian non-financial firms which has not been documented in the earlier studies. The global financial crisis of 2007 and recent European debt crisis has brought into focus the role of liquidity in

propagating and determining financial crisis. The present empirical results for Nigerian which includes the crisis periods (2007 to 2010) reflects the role of liquidity in leverage of companies and its potential in determining and propagating crisis.

Conclusion

A remarkable difference between the capital structure of Nigerian non- financial firms and firms in developed economies is that Nigerian firms presumably show a negative relationship to liquidity rather than positive relationship. This reveals that Nigerian non-financial firms are liquid which means their current asset outweighs their current liabilities. It suggests that the theoretical underpinnings of the observed correlations are still largely unresolved. The results of this empirical study suggest that some of the insights from modern capital structure theories are portable to Nigeria in that certain firm-specific factors that are relevant for explaining the determinants of capital structure in developed economies are also relevant in Nigeria. This is true despite profound institutional differences that exist between Nigeria and the developed economies.

Recent staggering data of a Global rating agency, Standard & Poor's (S&P) revealed that Nigeria benefits from low government and external debt burdens, ample oil reserves, and robust non-oil GDP growth (Chima, 2014). Furthermore, it anticipates petroleum prices would largely remain high, which would support exports and government revenues. Furthermore it also acknowledged a series of reforms in agriculture, the privatization of the power sector, and the rapid growth of sectors such as telecoms and financial services, which have contributed to the country's growth momentum (Chima, 2014). "Nigeria's real GDP continues to grow strongly

and we forecast that it will average 6.3 per cent a year in 2014-2017, driven primarily by non-oil growth and strong services growth, 'In addition, external and fiscal debt stock burdens are low. "We are affirming our sovereign credit ratings on Nigeria at 'BB-/B' (Chima, 2014).

In addition global rating agency, Fitch Ratings, upgraded the ratings of 3 major states in Nigeria (Lagos, Rivers and Kaduna), with Lagos State's national long-term rating upgraded to 'AA + (nga)' from 'AA (nga)', Rivers State's long-term foreign and local currency issuer default ratings (IDRs) at 'BB-' and its national long-term rating at 'AA-(nga)', and Kaduna's long-term foreign and local currency issuer default ratings (IDRs) at 'B+' and national long-term rating at 'A+(nga)'(Chima, 2014).

The author further disclosed how Fitch's rating of Lagos State outlook remains "stable". "The agency has simultaneously affirmed Lagos State's long-term foreign and local currency Issuer IDRs at 'BB-' with stable outlook and its short-term foreign currency IDR at 'B'," it explained. Stating that Lagos' N275 billion MTN programme, alongside its N57.5 billion and N80 billion bonds, which would mature in 2017 and 2019, respectively, have been affirmed at 'BB-' and upgraded to 'AA+ (nga)' from 'AA (nga)' (Chima, 2014). "The upgrade reflected Fitch's expectations of the state's continued solid operating performance, improved transparency and efforts towards an increasingly sophisticated and transparent administration, which is conducive to growing private sector investment," (Chima, 2014). With the aim to progressively improve transparency and accountability to international standards, the state is improving its governance and disclosure, with budgets and quarterly performance being published on the official website," (Chima, 2014).

Further rating of Fitch on Nigeria's Rivers reported a solid operating margin in the medium term, mainly driven by growing non-oil revenue being partially offset by gradually increasing operating expenditure, as well as by improving management disclosure and transparency (Chima, 2014).

On the other hand, Kaduna State will continue to achieve healthy financial performance amid mild growth in local taxes and subsidies from the federal government. "The rating also took into account the likely increase in financial debt due to the high infrastructure investment programme, which could potentially pressurize the budget, and the weak socio-economic environment," (Chima, 2014). Despite the latest and most current Standard and Poor's ratings on Nigeria, it is evident that overall, the empirical results from this study offer some support for the Static Tradeoff Theory of capital structure on Non – Financial Firms of selected Nigerian Companies.

Recommendations

In line with the findings of this study, primary recommendations suggests that Nigerian non-financial firms need to develop good strategies targeted at using more of equity to maximize their market performance so as to yield growth opportunities and increase dividends. Also the data pool used in this research finding reflects that non-financial quoted companies in Nigeria do not use much of debt in their respective capital structure choices. This may be due to the underdeveloped capital market through the poor participation of both public and private sectors in the bond market. The study recommends Nigerian Stock Exchange, government and policymakers to strive to remove any rigid policies that can hinder the effective participation of companies, and strive for formulation of economic policies that could help further develop the

capital market in such a way that it can absorb the increase in demand for funds, attract more foreign investors, encourage indigenous investors, and possibly stabilize its leadership in Africa as the leading economy in years to come.

Recommendations for Further Studies

The study has contributed to studies on determinants of capital structure of Nigerian non-financial firms with a more detailed evaluation based approach on 27 companies. Considering the limited sample population of 27 non-financial firms used in this study recommends further research on the examined topic but in the larger sample size of Nigeria's non-financial firms. In addition, a more detailed work that includes some of the new emerging firms that have contributed towards the current economic growth of Nigeria could be included in the data pool to help in resolving some theoretical keystones of the results as obtained in this study

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