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## **Investigating Capital Structure Decisions and Its Effect on the Nigerian Capital Market**

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### **Abstract**

The Nigerian Stock Exchange is the only stock market exchange that deals with the purchase and sale of shares in Nigeria. The Exchange over the years has witnessed rise and fall in business activities which affected its performance. The objective of the study is to investigate the effect of debt-equity choice of financing on the Nigerian capital market. The hypothesis formulated for the study was that there is no positive relationship between debt-equity ratios and the performance of The Nigerian Stock Exchange. The study was conducted on the consumer sector of The Exchange. The study is a quantitative research and secondary data were used for the study. A multiple regression analysis using SPSS was used for the analysis. Market capitalisation of shares was the dependent variable, and debt-equity ratio, paid up share capital, long term debt, and size were the independent variables of the model. The results revealed a negative relationship between debt-equity ratios and positive relationships between paid up share capital, long term debt and sizes of companies and stock market performance. It was recommended that companies should continue to pay more attention to shares when seeking for long term financing.

**Keywords:** capital structure, share capital, long term debt

## Introduction

Over the years, the issue of funding has been given much prominence in corporate finance. Funding is central and vital for any business entity. Availability of funds for businesses facilitates the smooth running of the business and also guarantees the continued existence of the business. Organisations cannot survive without financing for their operations. Corporate financing has become a global issue where corporate managers in Europe and the United States have always claimed that ‘financial flexibility’ is the primary objective of their firm’s policies (Almeida and Campello, 2010). This makes the issue of funding to be vital and paramount for companies’ operations.

Organisations in Nigeria have two main sources of funding their businesses, long term financing and short term financing. Short term financing is financing for a period of one year or less, accessed through the money market. Banks in Nigeria are the main providers of short term funding for companies where surplus funds are channelled to deficit areas. Traditionally short term financing are the most common and easily accessible funds for companies in Nigeria, mainly because of the nature of the instruments and the fact that many companies are not quoted on The Exchange, thereby limiting them to short term funding.

Long term funding is financing for more than one year and The Nigerian capital market is the market for where long term financing are sought. Al – Faki (2006, as cited in Muha, 2011) describes the Nigerian capital market as a “network of specialised financial institutions, series of mechanisms, processes and infrastructure that in various ways, facilitate the bringing together of suppliers and users of medium to long term capital for investment in socio-economic developmental projects.” At the hub of the capital market is The Nigerian Stock Exchange which has facilitated the availability of long term funding for companies to finance operations and companies have been doing so over the years.

The issue of capital structure has been a subject of considerable debate as far back as 1958 when Miller and Modigliani (1958; 1963) gave substantial amount of effort to determine which factors determines the firm’s choice of capital structure. Capital structure is concerned with the way the company finances its operations through the proportionate combination of debt and equity that will maximize the value of the firm. Ajao and Ema (2012) emphasize that using this proportionate relationship, a company can decide whether to use debt, equity, or a combination of both debt and equity.

In deciding the debt-equity combination of financing, the capital market comes to play because companies that seek for long term funding to finance their business activities will approach the capital market. The relationship between capital structure decisions and the Nigerian capital market lies on how often companies place offers on The Exchange and also on the amount of equities listed and traded on The Exchange. It therefore becomes important to investigate the relationship between capital structure decisions of quoted companies and its effect on the performance of the Nigerian capital market.

Globally, no acceptable position has been made on the acceptability of debt-equity choice of financing or optimum capital structure. Myers (1984) on his paper “the capital structure puzzle” asks on how firms choose their capital structures? and his answer was “we know very little about capital structure. We don’t know how firms choose the debt, equity or hybrid securities they issue.”

Two schools of thought emerged to explain the relationship of capital structure decisions and its effect on the value of the firm - the relevance and irrelevance schools of thought. The thrust of the relevance school of thought which was advanced by the net income approach and

the traditionalist view is that capital structure matters (Pandey, 2010). The irrelevance of capital structure advanced by the net operating income approach and Modigliani and Miller (1958, as cited in Pandey, 2010) feel differently and state that capital structure decisions are irrelevant in determining the value of the firm (Pandey, 2010). Other theories are the pecking order theory, the trade-off theory, the signalling hypothesis, and the agency theory. With decades of researches, no clear acceptable position has been adopted for capital structure decisions, and the theories have not been able to explain financing behaviour of organisations.

Most of the studies on capital structure conducted were done on developed countries Fan, Titman, and Twite, (2012), Hail and Leuz, (2006), Frank and Goyal, (2009), Rajan and Zingales, (1995) Margaritis and Psillaki (2010), Robb and Robinson (2014), Mahajan and Tartaroglu (2007), Rajan and Zingales (1995) and some on other countries like Pakistan; Jibrán, Wajid, Waheed, and Masood (2012), Jordan; Al Farooque, Van Zijl, Dunstan, and Karim (2007), Bangladesh; Chowdhury and Chowdhury (2010), Ghana; Abor (2008), Doku, Adjasi, and Sarpong-Kumankuma (2011), Bokpin and Isshaq (2008). Also looking at past literature Uremadu and Efobu (2012) have observed that most empirical studies are out dated and not recent (Harris and Raviv, 1991), (Hatfield, Cheng, and Davidson, 1994), (Himmelberg, Hubbard, and Palia, 1999), (Rajan and Zingales, 1995), (Rajan, Brien, Diamond, Fama, Kaplan, Kashyap, and Miller, 1994), (Rajan and Zingales, 1994), (Titman and Wessels, 1988), and (Taggart, 1997; Marsh, 1982; Javiland and Harris, 1984, as cited in Uremadu and Efobu, 2012).

A number of these studies investigated capital structure decisions as it affected the value of the firm, to bridge this gap, this paper looks at capital structure decisions on Nigerian companies and its effect on the Nigerian capital market. No serious research on the subject at hand had been conducted to the knowledge of the researcher, which necessitated the need for the study. The study investigates the consumer sector of the Nigerian Stock Exchange, which has not been done in previous studies.

### **The objectives of the study:**

The main objective of the study is to investigate the relationship between capital structure decisions of quoted companies and the performance of The Nigerian Stock Exchange. The specific objectives are:

1. To investigate the relationship between debt-equity ratios of quoted companies and the performance of The Nigerian Stock Exchange.
2. To assess the relationship between paid up share capital of quoted companies and the performance of The Nigerian Stock Exchange.
3. To evaluate the relationship between long term debt of quoted companies and the performance of The Nigerian Stock Exchange.
4. To determine the relationship between size of quoted companies and performance of The Nigerian Stock Exchange.

In line with the objective of the study, the following hypotheses were formulated:

H<sub>01</sub>: There is no positive relationship between debt-equity ratios of quoted companies and the performance of The Nigerian Stock Exchange.

H<sub>02</sub>: There is no positive relationship between paid up share capital of quoted companies and the performance of The Nigerian Stock Exchange.

H<sub>03</sub>: There is no positive relationship between long term debt of quoted companies and the performance of The Nigerian Stock Exchange.

H<sub>04</sub>: There is no positive relationship between the size of quoted companies and the performance of The Nigerian Stock Exchange.

The paper is divided into five sections. Section one is the introduction and discusses the background of the study, the research problem, the objective of the study and hypotheses of the research. Section two is the literature review and discusses the views of researchers, the theoretical framework, and a brief background of The Nigerian Stock Exchange. Section three is the research methodology, section four is the presentation and discussion of results and section five is the conclusion.

### **Literature Review**

The issue of capital structure is seen differently by many scholars and researchers. Some view the use of more of leverage over equity and others agree with the use of more of equity in favour of debt financing. Financial managers make capital structure decisions based on the requirements or needs of the organisation, or liquidity position of the organisation, the nature of a proposed project, or based on the nature of the shareholders. In choosing debt structuring or long term financing, the capital market is approached which is expected to have a positive impact on performance. Doku, Adjasi, and Sarpong-Kumankuma (2011) in their study of “Financial market development and capital structure of listed firms: Empirical evidence from Ghana,” conducted their research on Ghanaian companies and explored the relationship between financial market development and the choice of debt-equity finance as complements or substitutes. Using panel data and pooling 21 listed companies on the Ghana Stock Exchange, they were able to conclude that stock market development has a positive effect on capital structure decisions of listed companies.

Bokpin & Isshaq (2008) on a related study but with opposing views conducted their study on Stock market development and financing decisions of listed firms in Ghana covering a period 1991 to 2005. They regressed the debt – equity ratios on market size and market liquidity variables using ARIMA models and their results showed that market liquidity variables had a mixed impact on debt – equity proportions suggesting that the size of the Ghanaian stock market is not yet significant to impact on financing choices of firms quoted on The Exchange.

Chen and Strange (2005) attempted to investigate the determinants of capital structure on 972 listed companies on the Shanghai Stock Exchange and Shenzhen Stock Exchange in China in 2003. Using trade-off and pecking order theories which tried to explain and predict the signs and significance of leverage as identified by Rajan and Zingales (1994), they included institutional shareholdings (including state agency shareholdings, state owned shareholdings and privately owned shareholdings) as corporate governance variables to examine the effects of corporate structure on the debt financing behaviour of the companies. They found that profitability is negatively related to capital structure at a highly significant level, the size and risk of the firms are positively related to debt ratios in terms of market value measures of capital structures. The years of the companies listed on the stock market were positively related to capital structure indicating access to debt financing.

Baker and Wurgler (2002) concluded that market timing is relevant to capital structure as firms are more likely to issue equity when their market values are high, relative to book value and past market values, and to repurchase equity when their market values are low, while Press

(2015) states that unlike debt issues and reductions equity issues and repurchases have no significant lasting effect on capital structure. Therefore firms that have target debt ratios can engage in timing the equity market.

The capital market's influence on borrowing behaviour is closely related to capital structure decisions of companies which can further lead to capital market development. The Nigerian Stock Exchange was established in 1960 as the Lagos Stock Exchange. In December 1977 it became known as The Nigerian Stock Exchange, with branches established in some of the major commercial cities of the country. The Exchange began operations in Lagos in 1961 with only 19 companies listed for trading. The Exchange grew to about 283 listed companies with a total market capitalisation of about \$125 billion as at the end of 2007 and as at May, 2009, there were 295 securities listed made up of 41 Government Stocks, 47 Industrial loans (Debenture/Preference) Stocks and 208 Equity/Ordinary Shares of Companies with a total market capitalisation of N9.45 trillion. The Nigerian Stock Exchange operates an automated trading system for its market, and provides listing and trading services, as well as electronic clearing settlement and delivery services through the Central Securities Clearing System Plc. In 2013 there are approximately 255 listed securities with a market capitalization of N17.441 trillion (US \$112.338 billion). The Nigerian Stock Exchange currently has 12 sectors and 10 indices to track market performance. The Nigerian Stock Exchange has emerged as one of Africa's leading Exchanges and is today the second largest financial centre in Sub-Saharan Africa. The Exchange is licenced under the Investments and Securities Act (ISA), and is registered and regulated by the Securities and Exchange Commission. The Exchange is a founding member and executive committee member of the African Securities Exchanges Association (ASEA), an affiliate member of the World Federation of Exchanges (WFE), and an affiliate member of the International Organization of Securities Commissions (IOSCO). Two schools of thought have emerged on capital structure decisions. The relevance of capital structure and the irrelevance of capital structure schools of thought. Besley and Brigham (2005), Pandey (2010), Van Horne, Wachowicz Jr and Bhaduri (2008), Kurfi (2003), Kapil (2011) and Akinlo (2011) identified the theories of capital structure to be the Net income approach, the Traditional approach, Net operating income theory, and Miller and Modigliani Hypothesis of capital structure. Other approaches are the Trade – off theory, Pecking order theory, Agency theory, and Signalling hypothesis.

### **Relevance of Capital Structure**

The relevance of capital structure are premised on the notion that capital structure decisions are relevant in determining the value of the firm, and that capital structure decisions affect the value firm. In this school of thought, an optimum capital structure reduces the firm's overall cost of capital and maximizes its value. Two approaches relevant to this school are the Net income approach and Traditional views.

#### ***Net Income Approach***

The idea of increasing market value and decreasing the overall cost of capital is central to this approach. The Net income approach states that the capital structure of any given firm creates an impact on the value of the firm. Thus capital structure is important as a determinant of a given firm's value (Kapil, 2011). Pandey (2010) explain further that as the firm uses more of debt in place of equity, its value will increase and the weighted average cost of capital will reduce. Thus

by increasing debt the firm is able to increase firm value and lower the weighted average cost of capital.

### ***Traditional Approach***

The traditional approach to capital structure and valuation assumes that there is an optimum capital structure and that the firm can increase the total value of the firm through the judicious use of financial leverage. This approach suggests that the firm can initially lower its cost of capital and raise its total value through increasing leverage (Van Horne, 2005). Even though investors raise the required rate of return of equity, it does not necessarily mean that the use of equity can offset the benefits of using “cheaper” debt funds. Pandey (2010) further state that the judicious mix of debt and equity capital can increase the value of the firm by reducing the weighted average cost of capital up to certain level of debt. Van Horne (2005) explains further that as more leverage occurs, investors increasingly penalize the firm’s required equity return until eventually the effect more than offsets the use of 'cheaper' debt funds.

### ***Irrelevance of Capital Structure***

The irrelevance school of thought on capital structure state that the firm’s capital structure does not affect firm value. That firm value is independent of capital structure and that the firm’s value depends upon its investment decision rather than its financing decisions, thus financing and investment decisions of the firm are independent of each other. Capital structure is therefore irrelevant for the firm and hence no optimum structure exists for the firm. The theories behind this school are the Net operating income approach and the Modigliani - Miller (MM) hypothesis theory.

### **Modigliani and Miller hypothesis**

Modigliani and Miller (1958) argue that in perfect capital markets without taxes and transaction costs, a firm’s market value and the cost of capital remain invariant to capital structure changes. The value of the firm depends on the earnings and risk of its assets (business risk) rather than the way in which assets have been financed (Pandey, 2010). Van Horne (2005) states that the Modigliani and Miller (1958) position is explained in the Net operating income operating approach and made a formidable attack on the Traditional position by offering a behavioural justification for having the cost of capital constant throughout all the degrees of leverage. Kurfi (2003) informs that the MM hypothesis was made on four assumptions and two propositions. The assumptions were:

1. The existence of perfect capital market in which securities (equity and debt instruments) are traded by all investors freely. No restrictions are placed with respect to borrowing, they behave rationally, and the costs of buying and selling do not exist.
2. Firms are grouped into homogeneous risk classes, and firms would be considered to belong to a homogeneous risk class if their expected earnings have identical characteristics.
3. The risk of investors depends on both the random fluctuations of the net operating income and the possibility that the actual value of variable may turn out to be different than their best estimate.
4. That corporate income tax does not exist. This assumption was later removed.

The propositions were that “The market value of any firm is independent of its capital structure and is given by capitalizing its expected return at the rate appropriate to its class,” and that “the required rate of return on equity, or cost of equity, increases with financial leverage.”

### ***Net operating income approach***

The Net operating income approach as stated by Kapil (2011) is an approach where no optimal capital structure for any firm exists, the financing decisions do not affect the average cost of capital of the company and hence the total value of the firm remain unchanged with changes in the debt proportion. This theory was put forth by Durand (1962, as cited in Kapil, 2011) where he stated that the value of the firm depends upon its operating income and business risk and not on its capital structure. Changes in capital structure realign the risk and return between debt and equity and do not alter the total return and the total risk of the firm which impacts its total value. Long term financing mix is independent of the firm’s value. Other important theories about capital structure are trade – off theory, pecking – order theory and signaling hypothesis theory.

### ***Trade-off theory***

The trade – off theory refers to the idea that companies make in deciding how much debt finance and how much equity finance to use to balance the costs and benefits. Akinlo (2011) states that the trade – off theory asserts that companies optimize their debt level such that marginal tax advantages of additional borrowing are offset by the increase in costs of financial distress. Since interest payments are tax deductible, raising more debt increases the tax benefits. Akinlo (2011) goes further to state that an increase in debt equally increases the probability of default and hence the expected cost of bankruptcy.

### ***Pecking – order theory***

The pecking – order theory was pioneered by Myers and Majluf (1984, as cited in Autore and Kovacs, 2003) and explains that firms seeking to finance new investments prefer to use funds according to a hierarchy: first by internal funds then debt issuance, and finally equity issuance. This pecking order arises because managers not wanting to dilute existing shareholders’ will only issue overvalued securities. The theory therefore considers that a firm must issue common stock to raise cash to undertake a valuable investment opportunity. It is assumed that management knows more about the firm’s value than a potential investor, and that investors interpret the firm’s actions rationally. This is one of the most popular theories of capital structure theories. Chang and Song (2013) state further that, by assuming managers have inside information about firm value and always behave in the interests of passive existing shareholders, hence firms prefer internal to external finance, and prefer safe securities to risky ones for raising external finance. Safe securities, also called informational insensitive securities are defined as securities with less future changes when managers’ inside information is revealed.

### ***Signaling Hypothesis***

The signaling theory as stated by Bini, Giunta, and Dainelli (2010) posits that the most profitable companies provide the market with more and better information. With the signaling theory, as a firm decides to use debt or stock to raise new capital, it gives a signal to investors, and a stock issue sets off a negative signal and using debt is perceived as a positive (or neutral)

signal. Companies are therefore reluctant to issue new stock by maintaining a reserve borrowing capacity (Georgia State University, 2009).

This paper is influenced by trade-off theory of capital structure where companies will look at the option of long term financing. That is financing through the use of the capital market.

## **Research Methodology**

### **Research Design**

This study is a quantitative research investigating capital structure decisions on the Nigerian capital market. The ex-post factor research design was used because all events had already taken place. Secondary data was used to analyse the data. Annual report and accounts of companies (balance sheet and profit and loss account), The Nigerian Stock Exchange fact book, and the internet were the sources of data collection. The data collected for the study were market capitalisation of shares on The Nigerian Stock Exchange, market value of shares, debt ratios of the respective companies, and turnover ratios. The period of study was ten years, covering the financial years 2004 to 2013. Ten years was chosen to get better results for the work.

### **Population of Study**

The population of the study consisted of 27 equities listed on the Consumer Goods sector of the Nigerian Stock Exchange as at 31<sup>st</sup> December, 2013. Companies that are engaged in the production and manufacturing of final goods are listed in this sector and the products are classified for personal use and specifically intended for the mass market. The products encompass automobile/auto parts, beverages, food products, household durables and products. As of 2013 financial year these equities had a total market capitalization of N3.47 trillion (US\$22.30 billion) accounting for 70.87 per cent of performance by the sector (The Nigerian Stock Exchange Fact Book, 2012/2013).

### **Sample of Study**

Non probability sampling technique using purposive sampling was adopted for the study. This was because only companies with available data were used which best met the purpose of the study. Using Krejcie and Morgan (1970, as cited in Umaru, 2013) table for determining sample size, 20 companies were chosen representing 74 per cent of the population of study.

### **The Model**

The study adopts the model from the research of Chidiebere and Nwankaego (2012) and modified by the researcher. Using IBM SPSS statistics version 20, a multiple regression was used to analyse the study. Market capitalisation of shares is the dependent variable and a proxy for capital market performance, while the independent variables are debt-equity ratios, paid up share capital, long term debt, and size of the company being proxy for capital structure.

Market Capitalisation of Shares	Number of issued shares multiplied by the market price per share
Debt-Equity Ratio	Total liabilities divided by shareholders' funds
Paid up Share Capital	Number of shares issued and fully paid up
Long term Debt	Liabilities more than one year
Size	Company turnover

*Variable Measurement*



The relationship between capital structure and the Nigerian capital market expressed in functional form is:

$$MCAP = f(DE, PAID, LTD, SIZE)$$

To analyse the relationship between the dependent and independent variables, the regression equation is expressed in equation form as:

$$MCAP = a + \beta_1 DE + \beta_2 PAID + \beta_3 LTD + \beta_4 SIZE + \epsilon \quad (\dots 1)$$

Where,

MCAP = market capitalisation of shares

a = the constant

DE = debt – equity ratio

PAID = paid up share capital

LTD = long term debt

SIZE = company turnover

$\epsilon$  = error term

$\beta_1 \dots \beta_4$  = coefficients of the independent variables

### Expected Outcomes of the Research

The model's a priori expectations are:

DE has a positive relationship with MCAP.

PAID has a positive relationship with MCAP

LTD impacts positively on MCAP.

SIZE has a positive relationship with MCAP

## Presentation and Discussion of Results

### Descriptive Statistics

Table 1 below shows the descriptive statistics of the pooled data of all the 20 companies analysed over a ten year period from 2004 to 2013. In total there were 197 observations. Market capitalisation of shares had an average value of 4444326.60 and a standard deviation of 23273560.882. Debt – equity ratio had a mean value of 5.03 and a standard deviation of 21.115, paid up share capital had standard deviation of 400686.839 and a mean value of 94108.49, and, long term debt and size had average values of 146183.31 and 2083443.29 with respective standard deviations of 691851.520 and 9135725.873.

	Mean	Std. Deviation	N
MCAP	4444326.6	23273560.882	197
DE	5.03	21.115	197
PAID	94108.49	400686.839	197
LTD	146183.31	691851.520	197
SIZE	2083443.29	9135725.873	197

Table 1: Descriptive Analysis Source (SPSS Output)

### Correlation Analysis

The outcome of correlation between the variables as shown in table 2 below indicated a positive correlation between the dependent and independent variables. A 1% increase in market value of shares would be explained by a corresponding increase in 1.6% increase in debt-equity

ratios, 83% increase in paid up share capital, 93.2% increase in long term debt and 90.1% increase in size. The greatest correlation was between sizes of companies and paid up capital.

		MCAP	DE	PAID	LTD	SIZE
Pearson Correlation	MCAP	1.000	.016	.830	.932	.901
	DE	.016	1.000	.039	.039	.018
	PAID	.830	.039	1.000	.886	.974
	LTD	.932	.039	.886	1.000	.933
	SIZE	.901	.018	.974	.933	1.000
Sig. (1-tailed)	MCAP	.	.414	.000	.000	.000
	DE	.414	.	.294	.292	.399
	PAID	.000	.294	.	.000	.000
	LTD	.000	.292	.000	.	.000
	SIZE	.000	.399	.000	.000	.

Table 2: Correlation Source (SPSS Output)

### Regression Result

The summary of regression result computed using SPSS is shown in table 3. To test the fit of the regression model, the F statistic at 415.28 indicates that the model is statistically significant at 5%. From the data obtained, all the variables are in millions of Naira except the ratio which was presented as a ratio from the millions of Naira calculated. The overall fit of the model ( $R^2$ ) was 89.6% indicating a model fit. The adjusted R2 at 89.4% indicated that the cross validity of the model is very good. The multiple regression analysis which shows the relationship between MCAP and the 4 independent variables is expressed as:

$$MCAP = -117949.244 + -344.676DE + -38.116PAID + 19.962LTD + 2.512SIZE$$

From the model the contribution of the independent variables showed that debt-equity ratio contributed more to market capitalisation of shares at 344.67 followed by paid up capital with 38.11, long term debt with 19.96 and company size with the least at 2.512.

	Coefficients	Sig
Constant	-117949.244	
DE	-344.676	.989
PAID	-38.116	.000
LTD	19.962	.000
SIZE	2.512	.000
R	.947	
R square	.896	
Adjusted R square	.894	
F Statistics	415.284	
Durbin-Watson	1.726	

Table 3: Summary of regression result ( SPSS Output)

### Test of Hypothesis

#### *Results for the Test of Hypothesis One*

$H_{01}$ : There is no positive relationship between debt-equity ratios of quoted companies and the performance of The Nigerian Stock Exchange.

From the table above, the p value is .989 ( $.989 > 0.05$ ). We fail to reject the null hypothesis one, and conclude that there is no positive relationship between debt-equity ratios of quoted companies in Nigeria and the performance of The Nigerian Stock Exchange. This did not confirm to the a priori expectation of the research.

Results for the Test of Hypothesis Two

H<sub>02</sub>: There is no positive relationship between paid up share capital of quoted companies and the performance of The Nigerian Stock Exchange.

From the table above, the p value is .000 ( $.000 < 0.05$ )

We therefore reject hypothesis Two and conclude that there is a positive relationship between paid up share capital of quoted companies and the performance of The Nigerian Stock Exchange. This confirms to the a priori expectation of the research.

### ***Results for the Test of Hypothesis Three***

H<sub>03</sub>: There is no positive relationship between long term debt of quoted companies and the performance of The Nigerian Stock Exchange.

From the table above, the p value is .000 ( $.000 < 0.05$ )

We therefore reject hypothesis Three and conclude that there is a positive relationship between long term debt and the performance of The Nigerian Stock Exchange. This confirms to the a priori expectation of the research.

Results for Hypothesis Four

H<sub>04</sub>: There is no positive relationship between size of quoted companies and the performance of The Nigerian Stock Exchange.

From the table above, the p value is .000 ( $.000 < 0.05$ )

We therefore reject hypothesis Four and conclude that there is a positive relationship between size of quoted companies and the performance of The Nigerian Stock Exchange. This confirms to the a priori expectation of the research.

## **Conclusion**

The research is a study on capital structure decisions and its effect on the Nigerian capital market. The purpose of the study is to investigate the relationship between capital structure decisions of quoted companies in Nigeria and the performance of The Nigerian Stock Exchange. Studies on capital structure and its performance on the capital market have not been conducted in Nigeria and the study attempted to investigate the relationship. The hypotheses formulated were that there is no positive relationship between debt – equity ratios, paid up share capital, long term debt and sizes of quoted companies in The Nigerian Stock Exchange and performance of the Nigerian Stock Exchange. The results revealed that debt – equity ratios of the selected companies had no positive relationship with the stock market, whilst all the other independent variables paid up share capital, long term debt, and size had positive effects on the performance of the Nigerian capital market.

The study recommends as follows:

- As there is a positive relationship between share capital and the performance of the stock market, companies in Nigeria should continue to pay more attention to share issues when seeking for long term financing.
- Nigerian companies should continue to pay more attention to their sales so that more revenue can be generated and considering its effect on capital market performance.

- The study recommends capital structure decisions should be researched on other sectors of The Exchange to examine the effect on stock market performance.

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