

Effect of leverage on corporate performance in nigeria assignment

[Business](#)



EFFECT OF LEVERAGE ON CORPORATE PERFORMANCE IN NIGERIA A PAPER PRESENTED TO THE DEPARTMENT OF MANAGEMENT SCIENCE OF LADOKE AKINTOLA UNIVERSITY OF TECHNOLOGY OGBOMOSO, OYO STATE. ABSTRACT

In contemporary business organization, profit maximization is seen as the primary objective of establishing a firm; therefore the success of a firm is measured on how well it can increase earnings to its shareholders.

This study has therefore made an attempt to establish issues regarding the use of fixed cost financing to improve the overall profitability of the firm through empirical analysis, which is a response to conflicting opinion on the effectiveness of fixed cost financing on a firm's value. TABLE OF CONTENT
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CHAPTER ONE INTRODUCTION BACKGROUND OF STUDY Every time the firm makes an investment decision, it is at the same time making a financing decision.

The assets of a company can be financed either by increasing the owners claim or the creditors' claims. The owner's claims increase when the firm raises funds by issuing ordinary shares or by retaining the earnings while the creditors' claims increase through borrowings from them. The various means of financing represents the financial structure of the organization. The financing or capital structure decision is a significant managerial decision. It influences the shareholders return and risk; and consequently, the market value of the share may also be affected by the capital structure decision.

The company will then have to plan its capital structure initially at the time of its promotion in which the value of the firm depends upon its expected earnings stream and the rate used to discount this stream. Thus leverage cannot change the total expected earnings of the firm, but it can affect the residue earnings of the shareholders. If leverage affects the cost of capital and the value of the firm, an optimum capital structure would be obtained at that combination of debt and equity that maximizes the total value of the firm or minimizes the weighted average cost of capital.

The effect of leverage on the firm's value is not very clear, conflicting opinions have been expressed on this issue. In fact, this issue is one of the most contentious areas in the theory of finance and perhaps more theoretical work and empirical study has been done on this subject than any other. There has been a major source of controversy among scholars due to the diverse nature of their results. The result of this study will not only validate the finding of existing studies, but also serve as a reference for future financial decision making, designed to achieving optimum capital structure

that would optimize the returns to the shareholders. This research intends to examine the following questions being faced by company's management while making the financing decision. * How should the investment be financed? * Does it really matter the way in which the investment project is financed? * How does financing affect the shareholders risk return and value? Does there exist, an optimum financing mix in terms of the maximum value to shareholders of a company? * Can the optimum financing mix be determined in practice for a company? * What factors in practice should a company consider in designing its financing policy? STATEMENT OF PROBLEM Finance is seen as the main stream of any business that is established, and the function of the financial manager is efficient utilization of shareholders fund to attain optimum shareholders wealth, which is obtained when the market value per share, is maximum.

Today, the most disturbing issue facing financial theorist and corporate manager is the existence of a relationship between a firms capital structures and its value and the nature of such relationship. In other word the question has been what will happen to the average cost of capital and the value of the firm when the degree of leverage increases or decreases. Many theories have been propounded and a lot of study work has been carried out on the existence of a relationship between capital structure and the firm's value.

Some writers argued that taxes, agency cost and signalling consideration would make the capital structure to have effect on the firm's value. The nature of capital structure has also been controversial over the years, what proportion of debt should be employed in the capital structure? While some

logically concluded that leverage is perpetually advantageous others argued that leverage could be excessive thereby reducing the value of the firm.

However, since the capital has cost like any other resources which is used in the production process, the financial manager, seeks to maximize this cost.

It has also been argued that it is not necessary to take a view of the likely impact of the combination of debt and equity in the capital structure, if a reliable cost of capital is to be estimated for use in the evaluation of future investment opportunities. Thus, it has been said that by changing the capital structure (debt and equity); the financial manager increases the firms value and decreases the average cost of capital of the firm. It is this situation that the study attempts to examine empirically whether the ratio of debt to equity can have a positive or negative impact on the value of the firm.

OBJECTIVE OF STUDY Under favourable economic conditions the earning per share of a company increases with leverage but leverage also increase the financial risk of the shareholders. As a result, it cannot be stated definitely whether or not the value of the firm will increase with leverage. Based on these statements, the study attempts to find out the following: *What constitutes an appropriate capital structure in financing decision? *The effect of leverage on the firm's value. *To show whether the financing mix of a firm has any effect on its earnings per share and net asset per share. To identify the problem that is encountered by the financial manager in taking capital structure decision. In other to achieve these objectives, some selected firms, quoted on the Nigerian Stock Exchange will be examined.

SIGNIFICANCE OF STUDY Finance has been viewed as necessary in all business undertakings

and it has also been increasingly becoming acceptable that firms should employ debt in its capital structure but the most pressing issue is at what level leverage should be acquired.

The importance of this study takes its base on the fact that measuring the firm's value is expedient to management and investors will want to know how well their resources have been put, to attain an optimal capital wealth. The impact of capital structure knowledge is important to various participants in the firm such as the owners who will be interested in the financial risk of their company and its actual worth while the management will use the value of the firm in seeking to improve their operating conditions, and creditors will want to know the viability of such a firm in the stock market.

SCOPE/LIMITATION OF STUDY The study is restricted to data collected for twenty firms quoted in the Nigerian Stock Exchange to show the relationship between leverage and firms value measured in terms of Earnings per Share and the Net Assets per Share. **CHAPTER TWO LITERATURE REVIEW**

INTRODUCTION Raising of funds to finance the firm's investment project is an important function of the financial manager. In practice it is observed that the financial manager uses a mix of debt and equity. A practical question therefore is what motivates them to do so. More fundamental questions to be answered are: Does use of debt create value? *If so, do firms tend toward an optimum mix of debt and equity? The effect of capital structure on the shareholders earnings and risk under favourable economic condition is that earnings per share increases with leverage, but leverage also increase the

financial risk of the shareholders. As a result, it cannot be stated whether or not the value of the firm will increase with leverage, as the objective of the firm should be directed towards the maximization of the value of the firm. Thus the leverage decision of the firm is viewed from the effect it has on the value of the firm. What constitute an appropriate capital structure?

*Reviewing of the contentious issue “ the effect of leverage on the value of the firm”. CAPITAL STRUCTURE THEORY Every time a company borrows, it increases its financial leverage and financial risk. New equity financing decreases financial leverage and risk. Changes in financial leverage, brings the potential for good and bad results. How then do financial managers analyze many factors including the tax effects of interest payments and how the comparative costs of equity affect firm’s value? Debt in a firm’s capital structure can be beneficial.

First, debt creates the potential for leveraged increases in net income (NI) when operating income (EBIT) is rising. Secondly, debt gives the company a tax deduction for the interest that is paid on the debt. In contrast to debt, an issue of common stock to raise equity funds results in no tax break. In short, interest paid on business debt, is tax deductible, but dividends paid to common stockholders are not. The tax laws therefore give an incentive to use debt in their capital structures. How does a company balance the costs and benefits of debt?

In 1958, Franco Modigliani and Merton Miller wrote a seminal paper that has influenced capital structure decision ever since. Modigliani and Miller (known in Economics and Finance circles as M & M) concluded that when interest

payments are tax deductible to a firm, a capital structure of all debt is optimal. In reaching the conclusion, M & M assumed the following: * There were no transaction costs. * Purchasers of a company's bonds or common stock paid no income tax. * Corporations and investors can borrow at the same rate of interest * Investors and management have the same information about the firm. Debt, the firm issues are risk less. * Operating income is not affected by the use of debt. In such an environment, M & M showed that the tax benefits to the firm from issuing debt were so beneficial that the benefits allowed the company to increase its value by issuing more and more debt. Given the assumptions, a hundred percent (100%) debt capital structure is optimal. The assumptions of course, do not exist in the real world. In the real world capital structures vary widely. Firms seek to balance the costs and benefits of debt to reach an optimal mix that maximizes the value of the firm.

The optimal capital structure for a firm depends on the future prospects of that firm, so the answer to the question, what is the optimal capital structure for a firm? Financial managers must balance the costs and benefits of debt and use expertise and experience to develop the capital structure they deem optimal. When there is a rise in the level of leverage; the cost of equity increases in a manner such as to exactly off set the greater proportion of cheaper debt capital, so that the WACC remain unchanged.

They stated that tax relief on interest payment does not lower the WACC that the WACC will always continue to fall as leverage increases, while the value of the unleveraged firm remains the same. Chekuri and Litzerberger

(1971) on a comparative study of effect of capital structure on the cost of capital in less developed and highly developed efficient capital in less developed and highly developed efficient capital market, listed the effect of leverage on the cost of capital of 28 Indian utilities and a sample of 77 American utilities.

The result for the American utilities were constant with M & M thesis; that after allowing for tax advantage of debt financing, the cost of capital is independent of capital structure. The results for the Indian utility are inconsistent with the independent hypothesis and it supports the traditional approach. Other studies that support the traditional view include Wipern (1996), Pandey (1984), and Kehinde (2002). Wipern study is designed to test the relationship between leverage and the value of the firm.

He measures leverage as the ratio of fixed charges to minimum expected income in order to avoid the conceptual and statistical biases of the debt/equity ratio measure. His findings provide support for the view that shareholders wealth is enhanced by the firm's judicious use of fixed cost financing. Pandey in a modified model, to determine the empirical relationship between cost of capital and leverage using data of 4 industries, cotton (47), chemical (32) and electricity generation (20), from 1973-74 and 1980-81.

Introducing a proxy for risk variable measured by the co-efficient of variation of the net operating income (NOI), variables expected to influence the cost of capital and leverage were incorporated in the regression analysis equation.

Two measures of leverage were used, the first measure included preference

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capital in the debt, while the other equity. When the (WACC) was regressed with leverage, while holding other variables constant, the result were consistent also with the traditional view of M & M tax corrected article, that the cost of capital will decline with leverage even in the absence of tax deductibility of interest charges.

Based on the various scholars reviewed a number of studies have confirmed a correlation between leverage and the cost of capital and the value of the firm. Masulia (1983), studying the effect of leverage on altering capital structure changes, the sample of exchange offers analyzed, consist of all those which occur in the US during the period of 1963-78. He developed a linear model to estimate firm valuation effect on firm stock announcement on returns and capital structure changes. His finding led to the conclusion that changes in stock prices are positively related to leverage changes.

Also confirming the relationship (positive) between leverage and the value of the firm, Ajimoko, Omotola and Abdusalam (1992) using the beverage sector of 20 (twenty firms) 1985-90, as a case study, simple multiple regression was used to measure the share price, the result shows support that leverage has significant effect on Earnings per Share, if the return on investment is higher than the cost of debt. Kehinde (2002) holds a contrary view on the extent of leverage on the value of the firm as a double edged sword; it increases the shareholders earnings as well as creating risk of loss to them.

He believes that leverage has benefits as well as costs, if the company does not make enough profit to cover the interest payable on debt, the earnings of shareholders will be negative and the company's solvency is threatened,

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thus this will affect the value of the firm. Oloyede J. A. And Akinmulegun S. O. in their published work in the Nigerian journal of banking and financial issues, on the effect of capital structure on corporate performance. Their data was drawn from ten quoted firms on the Nigerian Stock Exchange.

They made a cross sectional analysis of the firms for four years between 1990 and 1993. A simple regression analysis of the ordinary least square was adopted in the study, to test the relationship between leverage and corporate performance measured in terms of Earnings per Share and Net Asset per Share. Their estimated results shows that although there is a positive relationship between leverage and Earnings per Share for 1990 and 1991, also between leverage and Net Asset per Share for 1991 and 1992, the relationship is however very weak as the co-efficient are not quite significant.

Also the relationship between Earnings per Share and leverage in 1992 and 1993; and Net Assets per Share and leverage in 1990 and 1991 were found to be negative and insignificant. The results are mixed and unreliable. They however concluded, based on the results of their findings that leverage has an insignificant impact on both Earnings per Share and Net Assets per Share of a firm, and hence the value of the firm, which then shows the irrelevancy of leverage on corporate performance.

From the various studies carried out, it has shown that a consensus has not been reached on the effect of leverage and the cost of capital, and leverage and the value of the firm. Some researcher's findings led to the conclusion that leverage has positive effect on the firm's value, while some say it is

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negative. But practically leverage will affect the value of the firm, based on the fact that the firm's cost of capital under normal condition is supposed to be the weighted average of all sources of capital to the firm. The cost of equity capital is not the same as the cost of debt capital.

Variations in the debt equity ratio is therefore expected to bring changes in the overall cost of capital which in turn determines the value of the firm, and it is also believed that the cost of debt is lower than the cost of equity, if so, it is wise to conclude that increase in the use of debt will reduce the overall cost of capital of the firm and will also increase the financial risk of shareholders. Therefore this study, will undertake to improve on the empirical analysis carried out by Oloyede J. A. And Akinmulegun S.

O by increasing the number of quoted companies to twenty and the number of years to five so as to see if the result will prove otherwise or rather confirm the findings of their study and at the same time having the opportunity to add to knowledge on this contentious issue “ the effect of leverage on the value of the firm (corporate performance). CHAPTER THREE RESEARCH METHODOLOGY INTRODUCTION The research methodology specifies the procedures for collecting and analyzing the information in the study. It deals with the sources of data used, the technique used in analyzing the data collected and hypothesis formulation.

This chapter is divided into two, the part that deals with the techniques of analyzing the data collected, the sources of data, model specification and the statement of hypothesis. The second part deals with the definition of variables in the study. METHOD OF ANALYSIS A linear function will be used in

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this study, which is referred to as ordinary least square method of regression analysis because it is mathematically simple. It has shown to provide a sufficiently close approximation to many, real world relationship.

In regression, we are interested in determining the mean value of y , the dependent variable for a given value of x , the independent variable. The ordinary least square method of regression will be employed in this study to measure the effect of leverage on the value of the firm. This method of analysis is issued to fit in some models to a cross sectional samples of twenty firms. The twenty firms to be examined consist of the following sectors in the economy, which are: Banking, Breweries, Building materials, Chemical and paints, Conglomerate, Insurance and Petroleum marketing sectors.

The analysis gives equal chances to all the items in the cross-sectional data and provides a brief and precise description of predicting the yield of leverage for a given amount of Earning per share and Net Assets per Share.

MODEL SPECIFICATION Regression models formulated relating to leverage of the firm with Earning per Share and Net Assets per Share are given as: $Y_1 = a_1 + b_1 L_1 + U_1$ $Z_1 = a_2 + b_2 L_1 + U_2$ Where: Y_1 = Earnings per Share of the firm Z_1 = Net Asset per Share of the firm L_1 = Leverage ratio 1 a_2 = Constant terms b_1 b_2 = Slope of the regression (co-efficient) U_1 U_2 = Error terms The model (Y_1) regressed on leverage ratio is the Earnings per Shares of the firm; while (Z_1) regressed on leverage ratio is the Net Asset per Share of the firm.

STATEMENT OF HYPOTHESIS To find out the effect of leverage on corporate performance measured in terms of Earnings per share (EPS) and

Net Asset per Share (NAPS). The following hypotheses are formulated which are: i)H0: Leverage has no significant effect on Earnings per Share.

H1: Leverage has significant effect on Earnings per Share ii)H0 : Leverage has no significant effect on Net Assets per Share H1: Leverage has significant effect on Net Assets per Share. MEASURE OF LEVERAGE The amount of debt that a firm uses to finance its assets creates leverage. A firm with a lot of debt in its capital structure is said to be highly leveraged. A firm with no debt is said to be unleveraged. Leverage can be measured in a variety of ways, however for the purpose of this study; the Debt Ratio will be adopted for its analysis.

Debt Ratio This ratio is used to analyze the long-term solvency of a firm; the firm may be interested in knowing the proportion of the interest bearing debt in the capital structure. This is computed by dividing total debt by capital employed or net assets. This ratio is mostly used in capital structure studies and will be adopted for this analysis. MEASURES OF PERFORMANCE The performance of a firm could be measured through turnover, profit before tax, Dividend per Share, Net Assets per Share, Earnings per Share, Market Price per Share etc.

However, it is evident that some of these measures have no link with debt financing of a firm. Therefore we have chosen two variables, which are of interest to investors, the Earnings per Share and Net Assets per Share.

CHAPTER FOUR PRESENTATION AND DATA ANALYSIS INTRODUCTION This chapter explains the data used and method of analysis for the sourced data.

It is subdivided into two units. Section One: Consist of two tables, which

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show the result of leverage regressed on Earnings per Share (EPS) and Net Assets per Share (NAPS) covering a period, 2005-2009 of twenty firms quoted on the Nigerian Stock exchange.

Section Two: Interprets the result of leverage regressed on Earnings per Share and Net Assets per Share. DATA PRESENTATION RESULT FOR TABLE A REGRESSION RESULT OF LEVERAGE ON EARNINGS PER SHARE

YRSlope of Regression (b)	Constant of value (a)	Coefficient of Determination r^2	Calculated value of (ta)	Calculated value (tb)	Table value of 95% confidence level	Table value of 99% confidence level
2009	0.501 (0.044)	-0.706 (0.998)	0.510	-0.707	11.386	2.101
2008	0.653 (0.046)	-1.098 (0.674)	0.742	1.629	14.195	2.101
2007	0.540 (0.053)	-0.181 (0.727)	0.542	-0.248	10.188	2.101
2006	0.472 (0.054)	-0.304 (0.499)	0.555	-0.609	8.740	2.101
2005	0.161 (0.049)	0.428 (0.812)	0.132	0.576	3.285	2.101

2.878 Source: From Calculated Values NOTE: The values in parentheses are standard errors of the parameters. Hypothesis testing that leverage has no significant effects on Earnings per share

RESULT FOR TABLE B REGRESSION RESULT OF LEVERAGE ON NET ASSETS PER SHARE

YRSlope of Regression (b)	Constant of value (a)	Coefficient of Determination r^2	Calculated value of (ta)	Calculated value (tb)	Table value of 95% confidence level	Table value of 99% confidence level
2009	1.168 (0.054)	0.098 (1.337)	0.638	0.073	21.629	2.101
2008	1.285 (0.080)	0.933 (1.182)	0.541	0.789	16.062	2.101
2007	0.774 (0.237)	0.702 (1.264)	0.345	1.346	3.265	2.101
2006	0.988 (0.103)	1.067 (0.840)	0.345	1.270	3.265	2.101

9. 592 2. 101 2. 878 2005 0. 810 (0. 044)-0. 190 (0. 730) 0. 855 -0. 260 18.
409 2. 101 2. 878 Source: From Calculated Values

NOTE: The values in parentheses are standard errors of the parameters.

Hypothesis testing that leverage has no significant effects on Net assets per share Decision rule: In accepting or rejecting our calculated t values at 99% or 95% confidence level, the null hypothesis that $b = 0$ (b is not significantly different from zero) is accepted, but if the absolute value of calculated t_b is less than the table value, conversely the null hypothesis is rejected (H1 accepted) if the absolute value of t_b calculated is greater than the table value of t_b . INTERPRETATION OF RESULTS

LEVERAGE ON EARNINGS PER SHARES The co-efficient of determination (r^2) obtained for each of the years from 2005-2009 are 13. 2%, 55. 5%, 54. 2%, 74. 2% and 51. 0% respectively. It is a measure of the extent to which variation in Earnings per Share can be explained by changes in leverage. The result in 2009 shows that 51. 0% of changes in Earnings per Share is explained by variability in leverage, of which 49% proportion left is unexplained as a result of factors other than leverage. However, the result shows a relationship between leverage and Earnings per Share.

In other words, it suggests a significant correlation between leverage and performance, measured in terms of Earnings per Shares. The regression equation obtained for 2009 gives leverage co-efficient (b) of 0. 501. This figure is found to significant at both 95% and 99% because the calculated student t values of the coefficient (t_b) is greater than the table value at both 95% and 99% confidence level. Based on the result for 2009, the null

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hypothesis that (b) is not significantly different from zero ($b = 0$) is rejected and the alternative hypothesis is accepted.

This leads to the conclusion that leverage ratio has significant effect on Earnings per Shares. A similar analysis of leverage coefficient obtained for the other years such as 2008, 2007, 2006 and 2005, confirms the conclusion reached above for these years. The leverage coefficient was 0.224, 0.540, 0.472 and 0.161 and they were all significant at both 95% and 99% confidence level. The significance of the leverage coefficient for most of the years has therefore made the null hypothesis that leverage has no significance on Earnings per Share, ineffective in all the years.

We therefore accept the alternative hypothesis that leverage has a statistically significant effect on Earnings per Share. On the average, percentage change in leverage will lead to 49.5% change in Earning per Share, in other words the average effect of leverage on Earning per Share is 0.495. This is acceptable at both 95% and 99% confidence level. From the above analysis, the result of this study is clearly in support of the fact that leverage has significant effect on Earnings per Shares.

This result is not unexpected since the cost of debt is generally considered to be less than the cost of equity; increased use of debt will magnify Earning per Share if the return on investment project is higher than the cost of debt.

LEVERAGE ON NET ASSET PER SHARE In year 2003, the coefficient of determination (r^2) is 63.8% which means that changes in Net Asset per Share can be explained by 63.8% change in leverage; which means that the remaining 36.2% is accounted for by other factors other than leverage. The

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leverage coefficient is 1.68, which was found to be statistically significant at both 95% and 99% confidence level. This implies that for 2009, the null hypothesis that leverage has no significant effect on Net Asset per Share is rejected and the alternative hypothesis accepted. Similar conclusion is also reached for the remaining years of 2005, 2006, 2007, and 2008 also suggests a significant effect of leverage on Net Asset per Share. In summary, the r^2 values were 63.8%, 54.1%, 34.5% and 85.5% respectively and this were found to be statistically significant in all the years under study.

For the fact that the result shows a positive relationship in all the years between leverage and Net Asset per Share we conclude that leverage has a significant on Net Asset per Share, so we will reject the null hypothesis and accept the alternative hypothesis. Based on the results of our study with respect to effect of leverage on Earning per Share and leverage on Net Asset per Share, we uphold the view that leverage has significant effect on corporate performance, despite the fact that we obtained average values of r^2 coefficient of determination when compared to industry standard of 50% for analyzing a cross-sectional data.

The values are not particularly low, but however, this situation can be attributed to the fact that the study involved the use of a cross-sectional data and the companies that were used, were randomly chosen, which means that the companies themselves might have employed individual policies on the use of debt to finance its investment. In reaching this conclusion we reject the operating income theory or the independence hypothesis that the firm's corporate cost of capital and common stock price

are both independent of the degree to which the company chooses to finance leverage.

We conclude that capital structure has significant effect on corporate performance. However, we do not subscribe to the dependence hypothesis or the net income theory that the value of the firm will continue to increase indefinitely with leverage and that the firm will maximum value and the lowest cost of capital when it is all debt financed. Rather, we settle for the traditional theory that leverage will increase performance up to a reasonable level of debt usage beyond which the value of the firms declines even though this has not been tested for in this analysis.

However, the result of this study is sharp contrast from the one carried out by J. A. Oloyede and S. O. Akinmulegun, in which they came to a conclusion that leverage has no significant impact, both Earning per share and Net Asset per Share. The outcome of their result may have reflected the number of firms tested and also the number of years; which was improved upon in this study. This may have been the reason why the result of this study is quite different from theirs by concluding that leverage has a significant impact on both Earning per share and Net Asset per share.

This conclusion is supported by the findings of Sarma and Rao (1967), which concluded that the value of the firm rises, up to a leverage range that is considered “ prudent”. Other studies that arrived at similar conclusion include Cherukeri and Robert Barge (1971), Wipfern (1966), Pandey (1981), Ajimoko Omotayo and Abdulsalam (1992). CHAPTER FIVE SUMMARY, CONCLUSION AND RECOMMENDATION SUMMARY Making financial decision is

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one of the most important functions of the financial manager. Since, there are many forms of financing a firm, either through debt or equity.

The decision on whether to raise capital through debt has been an issue of concern to the financial manager and analyst; because debt finance makes no difference to shareholders returns and it also increases the risk of return. Thus the overall effect of using debt on the capital structure has been a subject of debate between analyst and financial managers. Effort to resolve these issues by the researchers through empirical studies have not been conclusive, as to whether firms should raise capital through debt or at what extent should debt and equity is used in financing a firm?

In order to resolve this issue, an empirical testing of the effect of leverage on corporate performance of existing literature on the subject reveals the inconclusiveness of the controversy over the most contentious area in the theory of finance; twenty firms from the following sectors of the economy, quoted on the Nigerian Stock exchange was used: Banking, Breweries, Building materials, Chemical and paints, Conglomerate, Insurance and Petroleum marketing sectors.

Regression analysis technique was employed to measure the effect on the performance of the selected firms in form of Earning per share and Net Asset per Share on leverage ratio of the firms. The results obtained from the empirical study shows that leverage has significant effect on Earnings per Share (EPS) and also on Net Asset per Share (NAPS). The implication of this result is that: 1) the performance of this result is affected by changes in the capital structure (Debt and Equity) and; The financial manager should be

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allowed by the management of the firm to decide whether to employ debt/equity in the firm's capital structure since change in capital structure would significantly affect the value of the firm and enhance shareholders return. CONCLUSION From the result of this study we conclude that: Leverage has a significant positive effect on Earnings per share (EPS) There is a measurable effect of leverage effect on Net Asset per Share (NAPS) The average effect of leverage on Earning per Share is 49. % i. e. , a percentage change in leverage would lead to 49. 5% Change in Earning per Share while that of Net Asset per Share is 54. 4%. We therefore reject the null hypothesis in the study that leverage has no effect on the firm's value and uphold the alternative hypothesis that leverage has significant effect on the firm's value. However, it is necessary to point out some problems before the conclusion is accepted with some serious caution.

First, the study was based on certain assumptions, the invalidity of which may make the results subject to questions. One of the assumptions is the correctness of the published accounts, which serves as the basis of the study, the possibility of the accounts being window dressed was therefore ignored; Also, the Earning per share (EPS) which was used as a measure of performance being an accounting estimates may be significantly influenced by items, such as provision for depreciation, doubtful debt etc and the method adopted may be different from one another.

Therefore there is the possibility of the Earning figures being substantially different, if all the companies were to adopt the accounting policy. In addition to the above, the leverage ratio, which was used as our independent

variable, was based on the book value; there is possibility of the ratios being significantly altered, if market values have been used instead. Finally, the number of firms examined limits the research.

Despite the above reservation, it is my opinion, as indicated by the result, that the performance of a firm will be significantly influenced by its financial decisions. RECOMMENDATION I would recommend the following to the financial manager or analyst in taking financing decision based on the study:

1) In deciding on the capital structure of the firm, all the important factors that might influence the decision is undertaken, where the financial manager is in doubt, to view and analyse all the factors involved in a more objective manner.) More debt capital should be employed in order to increase return of shareholders. Although, excessive use of debt should be put in check, by firms in Nigeria. It has been argued that excessive use of debt capital affect level of commitment and consequently the performance of manager. When shareholders funds are employed, directors tend to pay more attention to the operations of the operations of the firm in order to ensure their success. They therefore should take steps that would motivate managers and ensure increased performance.) Finance institution should be encouraged to finance firms through equity participation, in addition to loans. Only few financial institutions undertake such activities. This will make them to be more committed to the success of the firm, as monitoring officials or experts would be deployed to check on the financial position of the firm and advice, if there is any problem. 4) There should be a well organized and efficient capital market for the raise in equity financing.) Nigerian firms suffers from shortage of capital resources, this is not unconnected with the continuous

increase in the cost of capital, which is making it difficult for firms to acquire loans, the government should direct or appeal to banks through the Central Bank of Nigeria to lower the rate of interest, so that firms could acquire loan facility to ensure the survival of the firms in Nigeria. We would therefore, suggest that: The financial manager or analyst should undertake proper valuation of investment decision, design a debt/equity policy and appraise the benefit that would accrue before being embraced by management.

Firms in Nigeria should employ more debt capital structure, despite criticisms. It would help the firms in meeting their financial obligations. Conclusively, the financial managers should always bear in mind that adequacy of funds is fundamental to the survival of the firm, they should therefore ensure that optimum finance decision are undertaken by making sure that necessary factors are put into consideration before a final decision is taken how an investment should be financed. BIBLIOGRAPHY Anderson Williams (1999): Statistics for Business and Economics 7th Edition.

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