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## Effect of Debt Financing on Firms Performance in Nigeria

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### **Abstract**

*The study examines the effect of Debt Financing on Performance of Firms in Nigeria. The study measured debt financing using the variables of long term debt financing(LTDF), short term debt financing (STDF) and preferred stock financing (PSF) while Firms Performance on the other hand was measured using Return on equity (ROE). Three hypotheses were formulated to guide the investigation and the statistical test of parameter estimates was conducted using OLS Regression Model. The research design used is Ex Post Facto design and data for the study were obtained from the NSE Factbook, Annual Reports and Accounts. The findings of the study show that Debt Financing has significant and positive effect on Firms Performance in Nigeria at 5% significant level. The study concludes that debt financing has improved firms performance over the years. Based on this, it was recommended that firms should try to finance their investment activities with debts and consider either debt or equity as a last option. Firms should also be debt intensive in its financing decisions as it influences performance.*

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**Keywords:** Long Term Debt Financing, Short Term Debt Financing, Preferred Stock Financing, Return on Equity

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### **1.1 Introduction**

Capital structure is the most significant part of financing for a firm and financing manager is concerned with the determination of the best financing decision in terms of the combination of debt and equity to be used for his firm. Capital structure decision is the mix of debt and equity that a company uses to finance its business which is very necessary for its efficient operation (Damodaran, 2001).

Capital structure has been a major issue in financial economics ever since Modigliani and Miller showed in 1958 that given frictionless markets, homogeneous expectations; capital structure decision of the firm is irrelevant. By relaxing the assumptions and analyzing their effects, theories seek to determine whether an optimal capital structure exists or not, and if so what could possibly be its determinants. The relationship between capital structure decisions

and firm value has been extensively investigated in the past few decades. As cited in Ogebe, Ogebe and Alewi (2013), capital structure could have two effects; according to Desai (2007) firms of the same risk class could possibly have higher cost of capital with higher leverage. Second, capital structure may affect the valuation of the firm, with more leveraged firms, being riskier and consequently valued lower than the less leveraged firms. If the manager of a firm has the shareholders' wealth maximization as his objective, then capital structure is an important decision, for it could lead to an optimal financing mix which maximizes the market price per share of the firm.

Omaliko and Okpala (2020) noted that financing mix is one of the hotly debated finance topics or theories among the studies of researchers and scholars. Its importance derives from the fact that capital structure is closely related to the ability of firms to fulfill the needs of various stakeholders. Financing mix represents the major claims on firm's assets. This includes the different types of both equities and liabilities.

It has been a traditional concept to divide the capital structure between debt and equity. How much debt and how much of equity thus constitutes the critical question for financial managers. It seems certain factors need to be examined before deciding the structure of capital for any organization. The structure could change over time but at any given point, adjustment may be made depending on whether the weight of debt is low or high. More debt could increase shareholders risk but when the conditions are right, it could increase their returns substantially. If debt-equity is well structured, the cost of capital could increase which will lead to increase in the value of the firm (Aziz & Abbas, 2019).

Despite active theoretical and empirical research, what determines corporate performance in regards to companies financing mix remains an empirical question in corporate finance. Thus, theory provides conflicting predictions on whether debt or equity or optimal use of both promotes firm performance which calls for further investigation and clarifications. Also Literature has shown that debt structure decisions are among the most important finance decisions firms encounter. The debate still remains until the present day whether such decisions influence costs of capital and firm values.

Based on these observations, the present study is instituted to examine the impact of debt financing on firm's performance in the Oil & Gas Sector, Health Care Sector and ICT Sector of Nigerian stock Exchange through the use of current data.

## **1.2 Objective of the Study**

The aim of this study is to examine the effect of Debt Financing on Firms Performance in Nigeria. The specific objectives include; to

1. Determine the effect of Long Term Debt Financing on Firms Performance in Nigeria.
2. Examine the effect of Short Term Debt Financing on Firms Performance in Nigeria.
3. ascertain the effect of Preferred Stock Financing on Firms Performance in Nigeria

## **1.3 Research Questions**

The research questions that are set to this paper include to:

1. What is the effect of Long Term Debt Financing on Firms Performance in Nigeria?
2. To what extent does Short Term Debt Financing influence Firms Performance in Nigeria?
3. What is the effect of Preferred Stock Financing on Firms Performance in Nigeria?

## **1.4 Research Hypothesis**

In order to direct the direct flow of this study, the following hypothesis were formulated in line with objectives of the study

**H<sub>0</sub>:** Long Term Debt Financing has no significant effect on Firms' Performance in Nigeria.  
**H<sub>0</sub>:** Short Term Debt Financing has no significant effect on Firms' Performance in Nigeria.  
**H<sub>0</sub>:** Preferred Stock Financing has no significant effect on Firms' Performance in Nigeria.

## **2.0 Review of Related Literature**

### **2.1.1 Long Term Debt Financing**

Long-term debts show the percentage of assets financed with debt which is payable after more than one year. It includes bonds and long-term loans. Generally, these bonds and loans carry a higher interest rate, as lenders demand a higher return in exchange for taking on the greater risk of loaning money over a long period of time. In reality, long-term debt limits managerial discretion by making access to new funds and over-investment less likely (Hart & Moore, 1995). Mathematically, Long Term Debt Financing is measured as long term debt to total assets.

According to Ubesie (2016), long term debt financing is a debt financing that matures in more than one year. It arises when an organization raises money for working capital or capital disbursements by selling corporate bonds, trade bills or notes to individuals and/or institutional investors. In return for lending the money, the individuals or institutions become creditors and receive a promise the principal and interest on the debt will be repaid.

### **2.1.2 Short Term Debt Financing**

According to Olaniyi, Elulu and Abdusalam (2015), short-term debt is an account shown in the current liabilities portion of a firm's statement of financial position and it comprises of any debt incurred by a firm that is due within a year period. The debt in a firm's liabilities account is usually made up of short term bank loans among other types. Short-term debt is used to finance current assets that can be quickly turned back into cash; examples of this type of debt are accounts receivable and inventories. Non-current liabilities in the form of long-term debt, or debts, are used to finance long-term assets, such as the purchase of land and the construction of a building or ship (Julius and Lucky, 2020). This is expressed mathematical as Short Term Debts measured by Total Assets.

### **2.1.3 Preferred Stock Financing**

As cited in Omaliko and Okpala (2020), Preferred stock (also called preferred shares, preference shares or simply preferred) is a form of stock which may have any combination of features not possessed by common stock including properties of both an equity and a debt instrument, and is generally considered a hybrid instrument. Preferred stocks are senior (i.e., higher ranking) to common stock, but subordinate to bonds in terms of claim (or rights to their share of the assets of the company) and may have priority over common stock (ordinary shares) in the payment of dividends and upon liquidation. Terms of the preferred stock are described in the issuing company's articles of association or articles of incorporation (Osuji and Odita 2018).

### **2.1.3 Firms Performance**

Omaliko, Okeke and Obiora (2021) see performance is usually been represented by different financial ratios such as total asset growth, loan growth rate and earnings growth rate. The performance of management is habitually a narrative expression through subjective evaluation of management systems, organizational discipline, control system, quality of staff and many more.

Performance is the most imperative measure for profitable of a company (Matar & Eneizan, 2018). Financial performance predominantly shows the sector of a business outcome as well

as results, showing the overall financial health condition of the business sector over a particular time period (Naz, Ijaz & Naqvi, 2016).

According to Erikie and Osagie (2017), financial Performance is the measuring of results of a firm's policies and operations in monetary terms. These results are reflected in the firm's return on investment, return on assets, value added. The term corporate performance refers to the benefits emanating from shares and those from the functioning and operational activities of a firm.

## **2.2 Theoretical Framework**

### **Agency Cost Theory**

The study is anchored on Agency theory propounded by Jensen and Meckling in the year 1976. Agency theory attempted to provide explanation to firm behaviors in area of choice financing. Their analyses permitted the building up of interlink between the organization and the agency theory of corporate finance.

Agency theory also has important implication for the relationship between equity holders and debt holders. Thus, while equity holders are interested in the return over and above the amount which is required to repay debt. Debt holders are only interested in debt payment specified in the contract. Also, it is seen that most equity holders - are sometimes being interested in pursuing riskier business activities that debt holders would prefer, when this occurs, debt holders may charge higher prices for the capital and this constitutes greater control measures to prevent up managers, from investing in capital in riskier undertaking.

### **2.3 Empirical Review**

Jaramillo and Schiantarelli (2017) investigated the long-term debt effect on firms' performance in Ecuador. There was a positive correlation between debt and age of firms. Older firms have easily access to finance and improved their performance. GMM model was used in this study for estimation. There was the positive relationship between debt and productivity and increase in debt causes increase in productivity.

Aborni (2017) examined the relation between debt policy and performance of (SMEs) in Ghana and the South Africa. The study used GLS model and concluded that total debt and the short-term debt decrease the gross profit margin in both countries while the long-term debt leads to increase the gross profit margin in both countries. Results indicated that capital structure negatively affect SMEs performance.

Zeitun and Tian (2017) evaluated the relation of performance and capital structure of companies in Jordan. The data have collected from secondary sources and obtained from Amman stock exchange and trading companies' financial statements. The results using regression model showed that there was inverse relationship between debt and firm's performance. Size of the company has also positive effect on performance of company because large firms have low bankruptcy costs.

Kumar and Woo (2010) examined the relationship between debt and economic growth in Ghana. The methodology adopted in the study was GMM (SGMM) dynamic panel regression. The study concluded that impact of debt on the growth is negative. So, increase in debt cause the decrease in growth.

Iavorskyi (2013) explored the relationship of debt and performance in Japan. The variables used in the study for performance measure were total factor productivity (TFP), ROA and EBIT while leverage includes the total leverage and long term leverage. The methodology adopted in the study was fixed effect regressions and dynamic model. The study concluded leverage cause the decrease in performance.

Dada (2014) investigated relation between profitability and debt of big firms in Nigeria. ROA and ROE which were used to measure the performance of company while debt of short term

and long term used in study as independent variables. Fixed effect and panel data techniques used for analysis. The results showed that if there is increase in debt then the profitability of corporation declines. This study can be extended by including all firms in Nigeria instead of large firms only.

Gabrijelcic (2013) examined the relation of Italian firm's performance and the leverage. This study results showed that increase in leverage cause the decrease in performance. The study used OLS and suggested that firms should use foreign financing to improve the performance but not too much which can negatively affect the firm performance.

Akhtar and Sadaqat (2011) examine the implication of capital structure on Pakistan commercial banks. They adopted OLS and showed evidence on significant relation of bank's size, profitability, tangibility and liquidity is found with the leverage. And that non-tax shield is found to have positive but insignificant relationship with the leverage of the banking sector. In addition, it is found that the banking sector of Pakistan is likely to follow trade-off theory.

Gropp and Heider (2018) used 200 largest listed banks (100 from the US and 100 from the EU). They find that standard cross-sectional determinants of firm leverage also apply to the capital structure of large banks in the United States and Europe. And also a remarkable consistency in sign, significance and economic magnitude. Like non-financial firms, banks appear to have stable capital structures at levels that are specific to each individual bank. The results suggest that capital requirements may only be of second-order importance for banks' capital structures and confirm the robustness of current corporate finance findings in a holdout sample of banks.

Buferna (2015), examine the determinants of capital structure in Libyan business environment. The results of cross-sectional OLS regression show that both the static trade-off theory and the agency cost theory are pertinent theories to the Libyan companies' capital structure whereas there was little evidence to support the asymmetric information theory. The lack of a secondary market may have an impact on agency costs, as shareholders who are unable to offload their shares might exert pressure on management to act in their best interests.

Kayhan and Titman (2017) examine firms' histories and their capital structures in Pakistan. They found using OLS that these variables have a substantial influence on changes in capital structure. Specifically, stock price changes and financial deficits (i.e., the amount of external capital raised) have strong influences on capital structure changes. They also find that their effects are subsequently at least partially reversed. These results indicate that although a firm's history strongly influence their capital structures, that over time, financing choices tend to move firms towards target debt ratios that are consistent with the tradeoff theories of capital structure.

Ahmed (2013) examined capital structure effect on performance of Malaysian Consumer and Industrial sectors. The study used return on asset (ROA) and return on equity (ROE) as proxies for performance; and short-term debt (STD), long-term debt (LTD) and total debt (TD) as proxies for capital structure. Four variables found by literature to have an influence on firm operating performance, namely, size, asset grow, sales grow and efficiency, were used as control variables. 58 firms were identified as the sample firms and financial data from the year 2005 through 2010 were used as observations for this study, resulting in a total numbers of observations of 348. A series of regression analysis were executed for the models. Lag values for the proxies were also used to replace the non-lag values in order to ensure that any extended effect of capital structure on firm performance was also examined. The result revealed that only STD and TD have significant relationship with ROA while ROE has significant on each of debt level. However, the analysis with lagged values shows that none of lagged values for STD, TD and LTD has significant relationship with performance.



Abbadi and Abu-Rub (2012) examined the effect of capital structure on the performance of Palestinian financial institutions. Using the multiple linear regression models, they utilised the data of 8 banks listed on the Palestine Securities Exchange. They found that a positive relationship exists between leverage and market efficiency.

In a related research, Ali (2012) analysed the impact of capital structure on the profitability of petroleum sector of Pakistan while controlling the size of the company. They carried out a regression analysis on the data of 12 randomly selected companies for a period of 10 years. They found that in overall analysis, there is a significant and positive impact of capital structure on the profitability of the petroleum sector whereas in individual analysis the analysis has no significance because every company has their own capital structure.

Olorunfemi (2012) used panel data analysis to analyse leverage and corporate performance in the Nigeria industry. They found that a positive relationship exist between earning per share and leverage ratio on one hand and positive relationship between dividend per share and leverage ratio on the other hand.

He noted that firms in the engineering sector of Pakistan are mainly dependent on short term debt. In another research, Ogebe (2013) investigated the impact of capital structure on firm performance in Nigeria for a period of 10 years. They used the fixed effect regression estimation model to confirm that a negative relationship exists between performance and leverage of the firms. They also affirmed that the traditional capital structure theory is valid.

Salawu (2017) carried out an empirical analysis of the capital structure of selected quoted companies in Nigeria between 2010 and 2014. Using panel data analysis; the author found that leverage is negatively related to profitability. He also confirmed tangibility is positively associated with total debts and long term debt though negative related to short term debt. He also opined that collateral has influence on all bank borrowing in Nigeria whether short term or long term. Furthermore, growth opportunity was found to be positively related to both total debts and short term debts.

Olokoyo (2013) examined the impact of leverage on firm's performance in Nigeria using fixed-effect estimation, random-effect estimation and a pooled regression model. The author found that all the leverage measures have a positive and highly significant relationship with the market performance measure (Tobin's Q). The study further revealed an important fact that Nigerian firms are either majorly financed by equity capital or a mix of equity capital or short-term financing. The study recommended that Nigerian firms should endeavour to match their high market performance with real activities that is potent enough to make the market performance reflect on their internal growth and accounting performance. Following the review of empirical studies the optimal capital structure of a firm is very paramount to its successful operation

Chechet and Olayiwola (2014) investigated capital structure and profitability of Nigerian quoted firms using the agency cost theory perspective, with Panel data on a sample of 70 out of the 245 listed firms on the NSE for a period of 10 years 2000-2009. Two independent variables debt ratio (DR) and equity (EQT) were used as surrogates for capital structure while profitability was used as dependent variable. Using fixed-effects, random and Hausman Chi-square estimations the result showed that DR is negatively related with profitability while EQT positively relate to profitability. Based on the findings and conclusions they recommended that for firms' experiencing agency conflicts and wishing to raise fund for operations or expansions, higher debt ratio should be given priority but the right combination of equity and debt must be observed.

Abor (2017) also carried out a study on relationship between Long-term debt and performance of small and medium-sized enterprises in Ghana and South Africa from 1998 to 2003. The study used a sample of 92 SMEs firms from Ghana and 68 firms from South Africa. The study measured financial performance by return on assets and Long-term debt by

short term debt ratio, long term debt ratio and total debt ratio. The study used Generalized Least Square (GLS) panel model for the estimation. Using return on asset as the performance measure, on the sample on Ghana, the result revealed a significant negative relationship between all the measures of capital structure and firm performance. Abor concluded that for Ghanaian SMEs, using high debt level significantly, lead to lower performance; that is increasing the level of debt in the firm's capital structure results in high bankruptcy and this leads to negative impact on firm performance. Also, the study found firm size to be significant and negatively related with return on assets. On the South Africa sample, the result showed a significant positive relationship between short term debt and return on asset. Thus, it revealed that short term debt seemed to be relatively less costly, thus increasing the short term debt will induce high level of profit. For long term debt and total debt, the result revealed a significant negative relationship with firm performance. Thus, it showed that the cost of long term debt is high and this will lead to low level of firm performance. The study also confirmed that firm size has positive and significant effect on return on asset.

Ishola (2018), while considering the sensitivity of performance to Long-term debt Long-term debt from 2010-2014, using Degree of Operating Leverage (DOL), Degree of Financial Leverage (DFL), Degree of Combined Leverage (DCL), as a proxy for capital structure; and Dividends Per Share (DPS), Earnings Before Interest and Taxes (EBIT) as measures of firm performance. Based on the data from selected foods and Beverages Company, the study analyzed the degree(s) of leverage ratio and the percentage change in DPS relative to percentage change in EBIT, and reported a positive relationship between capital structure and firm performance. The study concluded that irrespective of the dividend policy adopted by a firm, the rate of change in Long-term debt is a major determinant of firm's performance.

Also, Adeyemi and Oboh, (2011) examined the empirical effects of debt structure on the market value of selected firms listed on the Nigerian Stock Exchange. Both primary and secondary data were obtained from a sample size of 150 respondents and 90 firms. Both descriptive and inferential statistics were employed as analytical method; while the study revealed a positively significant relationship between a firm's choice of capital structure and its market value in Nigeria. The empirical review of most studies on capital structure and firm performance from Sub-Saharan African countries such as Ghana, South Africa, Egypt and Nigeria revealed that a relationship exists between capital structure and firm performance without consensus on the nature of the relationship across these countries.

Utile, Ikya and Akwuobu (2016) studied effect of short-term debt on the performance of cement manufacturing firms in Nigeria from 1997-2014. The researcher used secondary information gathered from books, journals and internet materials. Findings revealed that managers of firms are under pressure to determine the right proportion of debt and equity that would be used to achieve optimal financial performance. It was concluded that researchers are yet to reach a compromise on the optimal debt structure of a firm that would maximize firm's performance. It has been recommended that as managers continue to vary the debt to equity proportions more research should be conducted to find out an optimal capital structure that would optimize firm's performance.

Echekoba and Ananwude (2016) examines the impact of short-term debt on performance of agricultural and healthcare firms listed in Nigerian Stock Exchange for a period of twenty one (21) years 1993 to 2013. This study selected fifteen (15) out of the sixteen (16) firms listed on agricultural and healthcare sectors. Data were collected from the Nigerian Stock Exchange fact book of various issues as relevant and were analyzed using the pooled OLS, fixed random effect models and the granger causality test. Financial structure was surrogated by total debt to total equity ratio, short term debt to total equity and total debt to total assets ratio while firm performance was measured by return on assets, return on equity, earnings per share and profit before tax. The analysis for the agricultural firms revealed that financial

structure significantly impacts on earnings per share but does not impact on return on equity, return on asset and profit before tax. For healthcare firms, financial structure significantly impacts on earnings per share and profit before tax but does not impact on return on equity and return on assets. To this effect, we suggests that it is very crucial for firm's management to carefully look at the debt-equity mix, which according to the result of the study, significantly impacts on performance of firms in agricultural and healthcare sectors.

Muchiri (2016) investigated the relationship between short-term debt and financial performance of listed firms at the East Africa Securities Exchanges. The study employed explanatory research design with secondary panel data from the financial statements of 61 firms retrieved from the securities exchanges hand books for the period December 2006-2014. Feasible Generalized Least Squares method, random effect for models without moderator and fixed effect for models with moderator, based on Hausman specification test were used. The study found out that in isolation, short term debt, long term debt, retained earnings and external equity had insignificant negative relationship with return on assets but insignificant positive relationship with return on equity. While combined, financial structure had a significant positive and negative relationship with return on equity and return on assets respectively. On moderation of the relationship between financial structure and financial performance, it was found out that gross domestic product growth rate had a significant moderating effect. It is therefore recommended that firms combine both debt and equity in their financial structure and East Africa governments grow and maintain their GDPs trends since GDP was found to have a contingent effect on the financial structure.

Puwanenthiren (2011) examined the impact between short-term debt and Companies Performance, taking into consideration the level of Companies Financial Performance capacity during 2005 to 2009 (05 years) financial year of Business companies in Sri Lanka. The results shown the relationship between the short-term debt and financial performance is negative association at -0.114. Co-efficient of determination is 0.013. F and t values are 0.366, -0.605 respectively. It reflects the insignificant level of the Business Companies in Sri Lanka. Hence Business companies mostly depend on the debt capital. Therefore, they have to pay interest expenses much.

Mathanika, Vinothini and Paviththira (2015) in Sri Lanka investigate the impact of short term debt on a firm's value of listed manufacturing companies on Colombo Stock Exchange (CSE) in Sri Lanka 1997-2013. We used secondary data from 15 manufacturing companies on using Random sampling method. Correlation and multiple regression analysis techniques were used to analyses the impact of capital structure on firm value. Debts to equity ratio have significant influence on firm value but debts to total assets have not significantly associated with firm value. The study finding leads to the conclusion that the equity ratio, and debt ratio have significant impact on Firm Value of the Companies. The researcher proved that these findings are supported the prior empirical findings.

Anga, Ebenezer and Xicang (2012) in Ghana seek to provide evidence on the impact of short-term debt on a firm's value. The analysis was implemented on all the 34 companies quoted on the Ghana Stock Exchange (GSE) for the year ended 31st December 2010. The ordinary least squares method of regression was employed in carrying out this analysis. The result of the study reveals that in an emerging economy like Ghana, equity capital as a component. of capital structure is relevant to the value of a firm, and Long-term-debt was also found to be the major determinant of a firm's value. Following from the findings of this study, corporate financial decision makers are advised to employ more of long-term-debt than equity capital in financing their operations since it impacts more on a firm's value.

### 3.0 Methodology



The research design used is Ex Post Facto Design. Ex Post Facto Design was used in the study in order to examine the effect of debt financing on firms performance in Nigeria with reference to Oil and Gas Sector, Health Care Sector and ICT Sector of NSE.

Out of 31 firms that formed our sample size, 5 firms have empty financial information within the period under study (*MTN Nigeria Comm Plc, Airtel Africa Plc, Omatek Ventures Plc, Evans Medical Plc, Juli Plc, and Nigerian German Chemical Plc*) which was removed. Based on this, a total of 26 firms formed our sample size with 208 observations with data spanning from 2013-2020.

Data for the study were obtained from the NSE Factbook and annual reports and accounts of the firms. The collected data was analyzed using OLS Regression operated with SPSS V.20

### 3.1 Operationalization and Measurement of Variables

The dependent variable in this study is liquidity and profitability and it were proxy using the variables as shown on the table below:

**Table 1: Variable Measurements**

S/N	VARIABLES	FORMULA	Apriori Expectations
	<b>Independent</b>		
1	Long Term Debt Financing	<b>LTDF:</b> Long Term Debts/ Assets	Obonyo (2017).
2	Short Term Debt Financing	<b>STDF:</b> Short Term Debts/ Assets	Bufema (2015).
	Preferred Stock Financing	<b>PST:</b> Preferred Stock/ Total Assets	Osuji and Oditia (2012)
	<b>Dependent</b>		
1	Performance	<b>PERF: ROE</b>	Omaliko, Nwadiolor & Nweze (2020)

Source: Empirical Review (2021).

### 3.2 Model Specification

In line with the previous researches, the researcher borrowed and adapted and modified the Model of Obonyo (2017) in determining the effect of debt financing on performance of firms in Nigeria. This is shown below as thus:

$$\text{Obonyo (2017): ROA} = \beta_0 + \beta_1 \text{LTDF} + \beta_2 \text{STDF} + \mu$$

The Modified Model used for the study is shown below as thus:

$$\text{ROE} = \beta_0 + \beta_1 \text{LTDF} + \beta_2 \text{STDF} + \beta_3 \text{PSF} + \mu$$

#### Where:

ROE: Return on Equity

ROA: Return on Assets

LTDF: Long Term Debt Financing

STDF: Short Term Debt Financing

PSF: Preferred Stock Financing

### 4.1: Test of Hypotheses

OLS Regression Model was developed to test the linear relationship between the dependent and independent variables. It was operated using SPSS version 20 as shown in the table 2 below:

**Table 2: Result on Effect of Debt Financing on Firms Performance in Nigeria. Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.668 <sup>a</sup>	.447	.439	.74924	.447	54.639	3	203	.000	1.245

a. Predictors: (Constant), LTDF, PSF, STDF

b. Dependent Variable: ROE

#### ANOVA<sup>a</sup>

Model		Sum Squares	df	Mean Square	F	Sig.
1	Regression	92.017	3	30.672	54.639	.000 <sup>b</sup>
	Residual	113.957	203	.561		
	Total	205.974	206			

a. Dependent Variable: ROE

b. Predictors: (Constant), LTDF, PSF, STDF

#### Coefficients<sup>a</sup>

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.175	.061		2.890	.004
	PSF	-.967	.086	-.585	-11.190	.700
	STDF	.791	.118	2.606	6.713	.000
	LTDF	.785	.116	2.626	6.765	.000

a. Dependent Variable: ROE

#### 4.2: Discussion of Findings

The result of the analysis of the study using OLS Regression model operated with SPSS version 20 is expressed as follows:

**H<sub>01</sub>:** Long Term Debt Financing has no significant effect on Firms Performance in Nigeria.

In view of the above analysis as shown on table 2, the result shows that there is a significant and positive relationship between Long Term Debt Financing and Firms Performance in Nigeria with a p-value of 0.000. This could be verified with the coefficient of correlation of 78.5% which indicates that increase in Firms Long Term Debt Financing as other variables is constant increases firms return on equity by 78.5%.

Based on this, we rejected the null hypothesis and accepted alternate hypothesis which contends that Long Term Debt Financing has significant effect on Firms Performance in Nigeria.

**H<sub>02</sub>:** Short Term Debt Financing has no significant effect on Firms Performance in Nigeria.

In view of the above analysis as shown on table 2, the result shows that there is a significant and positive relationship between Short Term Debt Financing and Firms Performance in Nigeria with a p-value of 0.000. This could be verified with the coefficient of correlation of

79.1% which indicates that increase in firms short term debt financing as other variables is constant increases firms return on equity by 79.1%.

Based on this, we rejected the null hypothesis and accepted alternate hypothesis which contends that Short Term Debt Financing has significant effect on Firms Performance in Nigeria.

**H<sub>03</sub>:** Preferred Stock Financing has no significant effect on Firms Performance in Nigeria.

In view of the above analysis as shown on table 2, the result shows that there is an insignificant and negative relationship between Preferred Stock Financing and Firms Performance in Nigeria with a p-value of 0.700. This could be verified with the coefficient of correlation of 96.7% which indicates that increase in firms' preferred stock financing as other variables is constant decreases firms return on equity by 96.7%.

Based on this, we rejected the null hypothesis and accepted alternate hypothesis which contends that Preferred Stock Financing has no significant effect on Firms Performance in Nigeria.

## 5.1 Conclusion

The study from the statistical analysis concludes that Debt Financing has significant and positive effect on Firms Performance in Nigeria.

## 5.2: Recommendation

Based on findings of the study, the following recommendations are suggested:

1. Since the findings of the study found that long term debt financing improves firms' performance, it was recommended that firms should be debt intensive in its financing decisions.
2. The study also recommended that firms should employ more of short term debts as it improves performance.
3. Preferred stock financing should not form part of firms financing decisions as it does not influence performance.

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