

ANALYSIS OF CAPITAL STRUCTURE AND EFFECTIVENESS OF BUSINESS ENTERPRISES FOR NATIONAL SUSTAINABLE DEVELOPMENT AND DISASTER MANAGEMENT

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ABSTRACT

Managing capital structure is one of the most important and difficult problems to be solved in the process of funding, sourcing and providing finance for an enterprise. Instant response to changing external and internal environment requires significant update of many management functions in order to reduce their financial risk. The research aims to enhance the analysis of capital structure and effectiveness of business enterprises for national sustainable development and disaster management through the use of combinatorial methods for the analysis of 31 selected companies listed in the Nigeria Stock Exchange Bulletin from 1999 to 2013, certified by the Securities and Exchange Commission (SEC). The method of analysis is the panel estimation technique where the study seeks to analysis both the short-run dynamics and long-run nexus between capital structure and the effectiveness of business enterprises. The results obtained are highly instructive as valuable conclusions were drawn; and policy suggestions, which are deemed to benefit the investors and shareholders, lenders and finally, academicians who will see new empirical evidence in the accounting literature emanating from an emerging economy like Nigeria were proffered.

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KEYWORDS: Analysis of Capital Structure, Corporate Effectiveness, Dynamic Panel Model, Static Model of Panel Data and National Sustainable Development.

INTRODUCTION

The development of market economy and increased competition will intensify the search for optimal enterprise management solutions, including the formation of an optimal capital structure. The analysis is aimed at evaluating, formulating and forecasting the situation of financial activity. Given the nature of the analysis and its attendant purposes, financial analysis involves the stages of collection, separation and processing of aggregate management information that may be expected to clarify the diagnosis and prognosis of financial activities. In the last few years, there has been a significant expansion of information sources; which are constantly subject to updating, that are transferred to financial analysts. Analysis of financial decisions belongs to the scope of the decisive accountants and financial managers. The results directly affect the decision on capital structure and financial activity.

Analysis to determine the optimal capital structure of the company required interaction of market economy primarily due to economic interests - increasing economic efficiency. But the most effective management of financial resources can be achieved using a policy of asset financing, the main objectives of which is to improve their profitability. Problems in the theory and practice of analyzing the capital structure and effectiveness of enterprises have pioneer studies from foreign and local researchers such as Abor, E. Altman, M. Arellona, S. Bond, BH

Baltahi, A. Bevan, Babalola, RM Bushman, Clark, T. Eldomiati, EF Fama, R. Ferguson, Gitta – Gopinath, W. Green, Garba, Gupta, R. Heinkel, S. Hsyao, E. El-Seida, KS Im, M . Jensen, B. Kester, J. A. Knight, TR Lewis, A. Melis, Mayers & Majluf, Modigliani and Miller, P. O'Connell, IM Pandey, Titman and Wessels, Lee, Smith, P . L. Watts, Yinusa and Zeitun & Tean. Despite a lengthy investigation of the structure of capital; approaches on its short-term and long-term effectiveness are somewhat controversial. Much of the theoretical developments of the analysis of capital structure, as a field of knowledge, do not include the combinatorial techniques for analyzing both empirical and statistical data, which eliminates the shortcomings of historical analysis. The relevance and importance of the problem of eliminating the shortcomings of current methods of data analysis resulted in the choice of research topic; define its goals, objectives and practical significance.

There are two objectives for which this study is set out to achieving. The first is to establish the relationship of financial structure and financial performance while the second is to analyse both the short-run dynamics and long-run nexus between capital structure and the effectiveness of firms in Nigeria. In addition to the introductory section, the remaining part of the study is divided into three other sections. Section 2.0 addresses the methodological framework; which encompasses the theoretical framework and model specification, technique of

analysis, data sources and variable definitions for the empirical investigation while section 3.0 considers estimations and discussion of findings. Section 4.0, being the last, concludes and proffered necessary policy suggestions.

Significance of the Study

The benefit of this kind of study is very numerous particularly to different stakeholders such as owners of firms, investors, banks, government, finance experts and the academic community. This study will provide enhanced understanding to owners of firms on the roles and behaviours of managers. The analysis of capital structure and effectiveness of business enterprises for national sustainable development will avail the opportunities to understand how to mitigate the excesses of these managers such that the managers can deploy the firms resources to enhance the value of the firm and disaster management rather than their benefits which could be very detrimental to the owners.

The outcome of this study that will suggest that there is possibility of reverse causality from performance to capital structure. Owners can now appreciate that the level of performance of their firm can as well influence their choice of debt and equity. With the econometrics methodology that will be employed in this study, the finance specialist can now use robust and parsimonious econometrics based methods to analyse the financing choice of firms in a dynamic framework and identify the factors that drive firms to make capital structure decisions. The findings of this study serve as guide to present and future government in the formulation and implementation of relevant policies that can ease these national sustainability constraints especially the poor institutional quality and unfavorable macroeconomic environment.

Table 1: Expected Signs for the Firm-Level Determinants of Capital Structure

Proxy	Static-trade Off theory	Pecking Order theory	Agency Cost theory
Tangibility	+	+	+
Size	+	-	+
Growth Opport.	-	+	-
Lev.(Debt ratio)	+/-	-	+

Note: “+” means that profitability is directly linked with the factor while
 “-” means that profitability is indirectly linked with the factor

From a methodological standpoint, this study employed the use of panel estimation technique to investigate both the short-run dynamics and long-run nexus between capital structure and firm's performance. Also, the researcher obtains some descriptive analyses through the use of calculations of various financial ratios. Data for the study were selected from the statistical bulletin of the Central Bank of Nigeria; National Bureau of Statistics; Securities and Exchange Commission (SEC); annual

Statement of the Problem

In developing countries, the firms are operate in an environment that is characterize with poor institutional quality, macroeconomic imbalances that promote capital market inefficiencies, high transaction costs, poor corporate governance and moral hazard as well as other agency related problems. These persistent features of developing countries have high tendency to serve as constraints and impediments to financing choice of firms. The financial liberalization resulting from the structural adjustment programmed that changed the operating environment of firms and the macroeconomic environment has not been conducive for business, both monetary and fiscal policies of government have not been stable. The combination of high cost of borrowing and the massive depreciation of naira culminated in inflation spiral in Nigeria. This was not conducive to investment in general. Therefore, the research aims to enhance the analysis of capital structure and effectiveness of business enterprises for national sustainable development and disaster management.

METHODOLOGY

There are three major theoretical positions relating capital structure of firms to its level of effectiveness. These theories include the static trade-off theory, pecking order theory and the agency cost theory (see Table 1). In this study, the framework for investigating this relationship is based on the static trade-off theory. The theoretical expectations of these theories provide us with apriori information regarding what relationship is expected between capital structure and its various determinants (see Table 1).

report on the accounts of the Central Bank of Nigeria and the annual financial statements of companies spanning the periods; 1999-2013. Also, methodical approaches to the study of effectiveness of the enterprise take into account the macroeconomic factors that directly or indirectly affect it. Table 2 shows the variables included in the model empirical analysis.

Table 2: Variable Definitions

Variable	Measurement.
Firm size (fsiz)	Natural Logarithm of Total Assets.
Asset tangibility(ATAN)	Fixed Assets / Total Assets
Return on Assets (ROA): Index of Profitability	Gross Profit or Operating income / Total Assets.
Growth Opportunities (GOP)	Percentage change of sales turnover
Inflation (INFR)	This is measured as the rate of inflation in the Nigerian economy.
Interest rate (INTR)	It is measured as the lending rates by the banks to firms in Nigeria.

By combining specific internal factors of the enterprise and macroeconomic factors that determines firms' level of effectiveness; for which the summary measure of return on asset serves as an indicator, the model for empirical investigation is specified as:

$$ROA_{it} = a_0 + a_1DEB_{it} + a_2TOTASSET_{it} + a_3FSIZ_{it} + a_4ATAN_{it} + a_5GOP_{it} + a_6INF_{it} + a_7INT_{it} + a_8MCAP_{it} + \varepsilon_t \quad (1)$$

The choice of performance indicators is one of the most critical issues facing the company. Research ways to measure the effectiveness offer its measure in two directions - analysis of profitability and solvency analysis. The choice of the dependent variable is due to empirical research by studying various performance measurement tools of businesses. The choice of independent variables is reasonably due to large number of empirical investigations. In addition, the model also included macroeconomic variables such as the interest rate, inflation and capitalization as explanatory variables that impact on the efficiency of firms.

ESTIMATIONS AND DISCUSSION OF FINDINGS

Descriptive Statistics and Computation of Financial Ratios

This section analyzes capital structure and efficiency of economic activity on the example of the manufacturing sector of Nigeria. The analysis in Table 3 is systematized. The results show that the ratio of debt to equity in 18 companies ranges from 0.01 to 0.5, 4 of which have zero debt relative to equity; 6 companies with debt relative to equity within 0.5 to 1.0, while the 3 companies have debt ratio higher than 1.0 in relation to equity. The result of the difference in coefficients is that 30% of manufacturing companies of Nigeria (9 of 31 selected companies) have high leverage as much debt than equity ($K4 > 1$), so most of the fund assets of these companies at the expense of debt; approximately 60% of manufacturing companies (18 out of 31 selected companies) have low leverage, since less than 50% of debt used to finance fixed assets of these

companies, while 13% (4 of 31 selected companies) manufacturing companies have no leverage at all. This means that companies with high leverage will be highly-gearred while those with low leverage will be lowly-gearred. The implication is that most firms in Nigeria are lowly geared and are not largely affected

by their non-payment of principal and/or interest rate of debt capital sourced.

The coefficient K1, designed to measure the degree in which the assets are financed with long-term loans, and gives grounds to consider the capital structure of production companies in Nigeria on the other. According to this ratio, only 37% (11 out of 31 selected companies) manufacturing companies in Nigeria have value not less than 1, while the rest has fixed assets financed mainly from long-term loans. Complementing this computation of financial ratio is K2, which is a ratio that indicates the extent to which current liabilities used to finance current assets. K2 must be greater than 2 for better outcomes for the firms. Approximately 50% (15 out of 31 selected companies) manufacturing companies in Nigeria fall under the category of "about 2 and above", while the other 50% have an extremely low rate. This analysis of manufacturing companies found that half of them are unable to finance current assets due to short-term liabilities. In addition, most companies in Nigeria are unreliable, as evidenced by the low coefficient of solidity (K3). Return on equity (ROCE) is high enough. This suggests that management companies in the manufacturing sector of Nigeria have made considerable progress in the use of resources that are available to shareholders and owners, maximizing shareholder welfare.

Several companies have greater turnover ratio for the return on assets, indicating that most manufacturing firms in Nigeria have succeeded in judiciously utilizing the assets at their disposal to the wealth maximization benefits of the shareholders. Overall results from the summary statistics show the trending pattern of the manufacturing sector in Nigeria; in terms of their capital structure arrangement and level of effective

Table 3: Analysis Of Capital Structure And Effectiveness Of Business Enterprises Nigeria

No s / n	capital structure ratios					Financial performance ratios					
	Business Enterprises	Acc Ratio 1 (K1)	Acc Ratio 2 (K2)	Solidity (K3)	Debt Equity (K4)	(ROCE)	NPM	ROA	ATO	WC/CL	Coeff. quick ratio
A	B	1	2	3	4	5	6	7	8	9	10
1	Chemical and Allied Product Plc.	1,492	1,165	3,537	0,173	32,15	4,16	12,40	4,74	1,17	0,83
2	Chellarams Plc.	1,018	1,076	3,735	0,166	15,72	1,68	11,50	6,45	1,08	0,99
3	Tyre & Rubber Plc.	1,216	1,140	2,414	0,126	54,55	8,51	7,70	4,44	1,14	0,94
4	Wire & Cables.	1,578	1,884	2,234	0,147	33,91	6,24	7,70	3,85	1,88	0,99
5	PZ Plc	2,396	1,725	1,459	0,055	14,22	4,85	7,60	2,29	1,72	1,57
6	Livestock Feeds Plc.	1,236	2,280	5,470	0,200	20,60	7,15	11,50	1,90	2,28	0,80
7	Brewery (beers)	1,432	1,990	5,281	0,216	25,51	7,55	3,90	2,12	1,99	0,86
8	RT Briscoe Plc.	1,583	1,796	4,860	0,248	24,33	8,46	2,90	1,92	1,80	1,07
9	Lafarge Wapco Plc.	1,321	1,960	4,772	0,266	24,11	7,92	2,60	1,98	1,96	1,29
10	Nigerian Ropes Plc.	1,118	1,160	3,429	0,257	19,94	13,14	0	1,25	1,16	0,82
11	Secure Electronics Technology Plc.	1,011	2,516	2,933	0,165	21,27	13,11	3,56	1,24	2,52	2,31
12	Thos Wyatts Nig Plc	0,563	2,246	2,547	0,205	18,67	13,18	3,54	1,14	2,25	2,11
13	Avon Crown Caps & Container	1,211	2,519	11,732	0	116,41	17,67	18,30	4,51	2,52	0,37
14	Bata Glass Plc.	0,768	0,889	8,120	0,077	88,90	17,00	7,90	3,53	0,90	0,42
15	NCR-Textiles	1,171	0,898	7,537	0,128	89,45	16,32	11,60	3,70	0,90	0,42
16	Afprint Plc.	1,104	0,898	7,537	0,128	89,45	16,32	-2,10	3,70	1,12	0,64
17	United N Textile Plc.	0,054	1,119	10,683	1,039	-20,14	1,48	-1,50	-10,71	1,50	1,23
18	Tripple Company Plc.	0,083	1,504	12,290	1,441	259,89	22,13	-4,50	9,72	2,00	1,77
19	Enamel Plc.	0,873	2,000	4,651	0,381	91,43	35,34	1,99	1,76	0,87	0,65
20	First Aluminium Plc.	0,878	1,753	2,335	0	89,53	2,48	1,90	24,41	0,88	0,69
21	W.Aluminium Products Ltd.	0,781	2,225	2,431	0	88,26	2,22	2,38	25,57	0,87	0,73
22	Smart Product Ltd.	0,672	0,873	1,901	0,795	64,77	3,39	6,90	17,99	5,92	4,83
23	First G. Aluminium	1,225	0,878	1,693	0,732	58,43	2,19	9,90	17,35	0,64	0,34
24	Interlink Technology	0,782	0,872	91,900	0,982	-791,39	-4,61	19,10	104,17	0,46	0,30
25	Hallmark Products	1,211	5,922	26,509	0,892	-60,74	0,39	17,30	-11,38	1,77	1,40
26	Wires and Cables	0,753	0,637	177,574	0,534	-2,98	-10,80	26,10	0,39	2,01	2,05
27	Academy Press Plc.	0,992	0,456	1206,618	4,386	-60,55	-27,83	20,00	2,18	1,58	1,37
28	Longman Plc.	1,021	1,216	33,468	0	-526,50	-34,18	17,10	15,36	2,40	1,70
29	Vono Products Plc.	1,771	1,578	33,631	0,059	9,09	2,43	2,71	1,04	1,52	2,57
30	Leather Bags & Footwear	1,916	2,141	17,526	0,721	9,09	2,43	2,71	1,04	1,52	2,57
31	Lennards Nigeria Plc.	2,007	2,396	31,819	0,045	4,29	2,63	2,94	1,11	1,33	2,07

Trend Analysis of Capital Structure of Firms in Nigeria

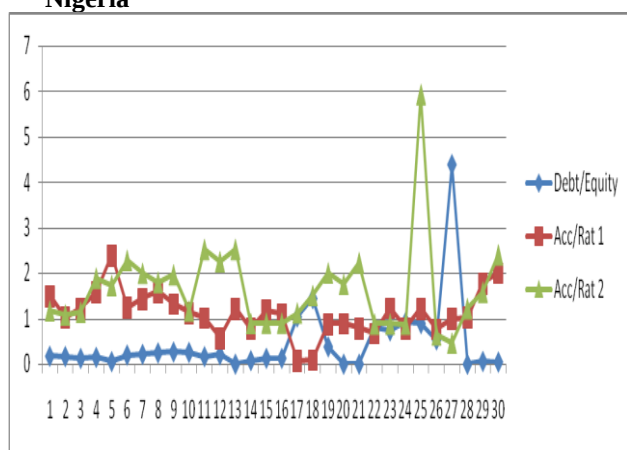


Figure1: Financial Leverage, Long-Term Liabilities to Long-Term Loans and Current Ratio

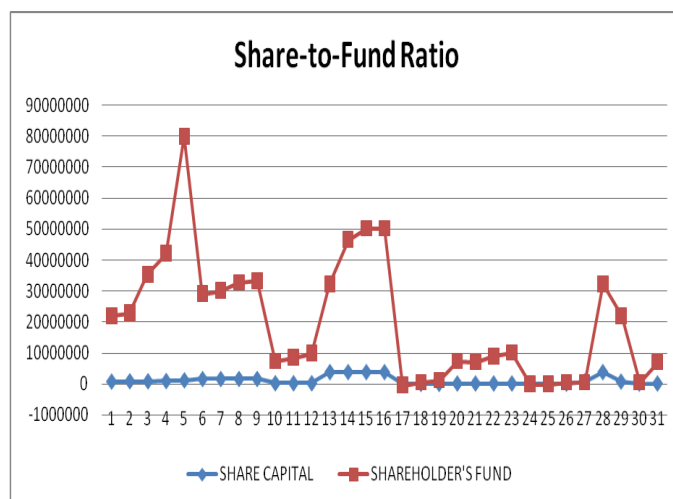


Figure 2: Financial Ratio Proxy for Firms' Size

Estimations of Dynamic and Static Panel Analyses

According to the dominant paradigm of corporate financial, capital structure choice is a compromise between costs and benefits of debt involved. Short-run panel data were analyzed for major evaluation of linear panel data. The result obtained shows that the growth opportunities of the company (abbreviated gop), rather than capital structure (deb), is the main factor of importance for the efficiency of corporate companies in Nigeria, while the long-run situation revealed that capital structure and the value of total assets (totasset) are factors of importance for corporate effectiveness in Nigeria.

It is instructive to note that this article examines the similarities and differences between short-run and long-run empirical situation and found that there is significant difference between the two situations: the situation in the short-run is that the ratio of debt / equity value of total assets and corporate companies are insignificantly negative factors, while in the long situation - on the contrary. In addition, if the proportion of tangible assets (short atan) and size (fsiz) had a negative impact in the short-run assessment of the situation, the effect of long-run situation is positive. Also changed to the opposite

(from positive to negative) impact of market capitalization (abbreviated mcap). Table 4 shows the results of the evaluation of dynamic and static panel data.

Growth opportunities of enterprises (gop), caused an increase in turnover and is important for the efficient utilization of assets only in the short-run with a coefficient 0.0004 at T-statistic values of 2.64. The analysis of the short-run dynamics and long-run nexus confirms the static-trade off theory; that large companies are more likely to preserve high rates than medium-sized companies with the same coefficient of leverage. The results contradict the pecking-order hypothesis. Using the estimates presented in Table. 5, it can be concluded that the short and long term situation of capital structure have diametrically different impacts the effectiveness of firms in Nigeria. In addition, if the coefficients of tangible assets (atan) and size (fsiz) negatively impacted on firms' effectiveness in the short-run situation, the effect of long-term situation is positive. Also, the impact of market capitalization alternates; changed to the opposite (from positive to negative).

Table 4: Evaluation of Dynamic and Static panel data

Dynamic Panel Estimations (Short-Run Dynamics)									Static Panel Estimations (Long-Run Nexus)					
Differenced Estimates			Dynamic Systemic Estimates			Dynamic Linear Dynamic Estimates			Fixed-Effect			Random-Effect		
Var.	Coeff.	Prob.	Var.	Coeff.	Prob.	Var.	Coeff.	Prob.	Var.	Coeff.	Prob.	Var.	Coeff.	Prob.
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Roa_1	0,0765694	0,603	Roa_1	0,31807	0,006	Roa_1	-	-	Roa_1	-	-	Roa_1	-	-
Atan	-0,034247	0,143	Atan	-0,04021	0,109	Atan	- 0,051266	0,190	Atan	0,092475	0,458	Atan	0,043629	0,503
Deb	-0,0001156	0,547	Deb	-0,00007	0,712	Deb	-0,000088	0,662	Deb	-0,000124	0,066	Deb	-0,00013	0,005
Fsiz	-0,0645714	0,245	Fsiz	0,004482	0,925	Fsiz	-0,125864	0,152	Fsiz	0,0294273	0,741	Fsiz	0,066383	0,167
Gop	0,000544	0,016	Gop	0,000253	0,140	Gop	0,0009872	0,019	Gop	0,0005617	0,012	Gop	0,000057	0,514
Infr	0,0011987	0,660	Infr	0,000897	0,762	Infr	0,0012815	0,728	Infr	0,0032982	0,294	Infr	0,003628	0,114
Intr	0,0129284	0,029	Intr	0,007355	0,204	Intr	0,0102976	0,150	Intr	0,0064046	0,490	Intr	0,006287	0,446
Mcap	-9,59e-06	0,739	Mcap	-0,00005	0,083	Mcap	0,0000141	0,715	Mcap	9,64e-06	0,699	Mcap	-0,00001	0,352
Totas set	-5,99e-10	0,178	Totas set	-4,36e-10	0,356	Totasset	-5,33e-10	0,452	Totas set	-1,16e-09	0,004	Totasset	-7,96e-10	0,001
_cons	0,504734	0,169	_cons	0,069477	0,823	_cons	0,9544392	0,087	_cons	-0,17226	0,768	_cons	-0,35844	0,252

Source: Calculated by the author in STATA 11.

Table 5: signs and significance of short and long-run situations

Signs and Significance of Short and Long-Run Situations					
Short-Run Signs and Significance			Long-Run Signs and Significance		
VAR.	Signs	Significance	Var.	Signs	Significance
ATAN	- ve	Not Signif.	Atan	+ve	Not Signif.
DEB	- ve	Not Signif.	Deb	-ve	Significance
FSIZ	-ve	Not Signif.	Fsiz	+ve	Not Signif
GOP	+ve	Significant	Gop	+ve	Not Signif
INFR	+ve	Not Signif.	Infr	+ve	Not Signif
INTR	+ve	Not Signif.	Intr	+ve	Not Signif
MCAP	+ve	Not Signif.	Mcap	-ve	Not Signif
TOTASSET	-ve	Not Signif.	Totasset	-ve	Significance
_cons	+ve	Not Signif.	_cons	-ve	Not Signif.

Source: STATA 11 Outputs. Note: Linear Dynamic Estimates is for Short-run Analysis while the Random-Effect depicts the Long-Run Situation

CONCLUSION AND RECOMMENDATION

The calculations of financial ratios employed to relate financial capital structure of firms to their efficiency show that approximately 60% of manufacturing companies are lowly geared, that is, these businesses will feel less risk exposures. On the other hand, less than half of the manufacturing firms analyzed are unable to finance their short-term financial obligations. This suggests that the management of companies in the manufacturing sector of Nigeria has made considerable progress in the use of resources that are available to shareholders. Several companies have greater turnover coefficient for return on assets, indicating a low return on sales, but most companies reverse.

We undertake the panel models for long-run and short-run situations for the empirical estimations. As a summary, for the measure of efficiency, we used return on assets (ROA); calculated as the ratio of gross profit to total assets. The independent variables include both firm-specific variables (such as the total assets, growth opportunities, firm size, shares of tangible assets in their total value) and macroeconomic variables such as the interest rate, inflation and market capitalization. The choice of independent variables is informed by the theoretical framework employed for the study. The short-run panel data were analyzed for basic linear panel data estimates. It was found that the growth opportunities of the firms (proxied as GOP), rather than capital structure (DEB), is the main factor of importance for the corporate enterprise's efficiency, while the situation in the long-run situation show that the financial structure and the value of total assets

(Totasset) are factors of importance for corporate effectiveness in Nigeria. Besides, if the proportion of tangible assets (proxied as ATAN) and size (proxied as Fsiz) had a negative impact in the evaluation of short-term situation, the effect of the long situation is positive. Also, the opposite (from positive to

negative) impact of market capitalization (proxied as MCAP) on corporate effectiveness was found.

The results for the short and long run situations proves the inaccuracy of the static trade-off theory of capital structure which presupposes that large companies are more likely to preserve the high rates than medium-sized companies with the same level of leverage ratio. This is evident in the computed financial ratios analysed. The results contradict the hypothesis that the proportion of tangible assets of the enterprise is a factor for the effectiveness of firms. The survey also revealed a nonlinear relationship between the effectiveness of corporate firms (indicated as ROA) and capital structure (indicated as the ratio of debt and equity). The results obtained enabled us draw conclusion that the analysis of capital structure on effectiveness of business enterprises are of importance for national sustainable development and management of resources and responsibilities for dealing with all financial and humanitarian aspects of emergencies, in particular preparedness, response and recovery in order to wage war against likely form of disasters.

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