

FINANCING MIX AND MARKET POTENTIALS OF LISTED OIL & GAS FIRMS IN NIGERIA

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Abstract: This study assessed the influence of financing mix on market potentials of quoted companies in Nigeria. The specific objectives were to determine the effects of equity, long term debt, and short term debt financing on book value per share, using firm size as a moderating variable. The population was listed Oil and Gas companies on the Nigerian Stock Exchange. The study employed the ex post facto research design. Data were mainly collected from the published annual reports of the oil companies from 2013 to 2018 and was analyzed using regression. The findings revealed that equity, long term debt and long term debt had positive influence on book value per share while firm size had positive and significant relationship. It was recommended that financial managers of oil and gas companies should ensure optimal financing mix that will ensure greater shareholders wealth at all times.

Keywords: Financing mix, Equity mix, Long term debt mix, Short term debt mix, Firm Size, Market Potentials, Book value per share.

INTRODUCTION

The financing mix, is very important to a firm. It shows the ratio between debt and equity capital, which a firm uses to finance its assets. It is of great importance, not only because it impacts on the financial performance and position of the company, but also affects the stakeholders' interests in the firm. Accordingly, today's contemporary financial managers constantly strive to achieve optimal financing mix in their firms; as it is their responsibility to put in place good financing structure that will most appropriately balance the risks associated with debt and equity financing. According to Damodaran (2000), financial managers are expected to determine the best form of financing, such that the firm will always have available funds to operate efficiently and maximize shareholder value. Opoku and Adu (2012) posits that financing mix plays an important role in a firm, especially when the firm wants to fulfil the need of their stakeholders through payment of dividends, payment of debt, payment of salaries on time and other financial obligations.

Market potentials, on the other hand, is a measure of an organization's earnings and appreciation in value as evidenced by the increase in the entity's worthiness in the market (Asimokopoulos, Samitas and Papadugonas, 2009). Investors' returns are measured from the perspective of shareholders e.g. earnings per share, dividend per share, earnings yield, price-earnings ratio, book value per share, share price and dividend yield. They are indicators of what shareholders earn on their investments in the firm.

Evaluating the market performance of a business allows decision makers to judge the results of business strategies and activities in objective monetary terms as well as know the worth of the company in the eyes of potential and existing investors. The reason for this study therefore was to sought the effect of financing mix employed by firms on the market potentials (measured by their book value per share).

Statement of the Research Problem

The interconnectedness between financing mix (or capital mix) and firm performance is a topic that has generated a lot of controversies among financial researchers and managers alike. In Nigeria, a vast majority of researches in this area centered on either the determinants of leverage or the nexus between capital structure and firm profitability. For instance, prior studies were carried out by Karim, Alayi and Inncent (2019); Olarewaju (2019); Ngokwe and Udeh (2019); Abiola Wisdom and Qudus (2018); Olaniyan, Soetan and Simon-Oke (2017); Dada and Ghazali (2016); Adeisna, Nwidobie and Adesina (2015), etc on the subject matter. However, those studies ended up with contradictory and debatable results. Aside those controversies, some were also deficient in 'variables', 'study methodologies' and 'time' scopes. That formed study gap that needed to be filled by our study. Accordingly, this study departs from prior studies by assessing the influence of financing mix on market potentials of oil and gas companies in Nigeria. Specifically, we empirically studied the impact of financing mix on market potentials of firms- using financing mix as a predictor variable (with equity, long term debt, short term debt finance as its proxies); while market potential (the dependent variable) was measured with book value per share. Firm size was however, used as a control variable.

REVIEW OF RELATED LITERATURE

Market Potentials

Market based ratios, sometimes called investors ratios are used to evaluate the market potentials of a listed companies. It also evaluates the current share price of a publicly-held company's stock and are mainly employed by current and potential investors to determine whether a company's shares are over-priced or underpriced. One of the most common market based ratios is the book value per share. It is usually calculated

by dividing aggregate amount of stockholders' equity by the number of shares outstanding. The book value of a company's equity excludes the value of preference stock, as these are not seen as part of equity. Essentially, the book value ratio is used as a benchmark or basis of assessing if the market value per share is higher or lower, which forms the basis for decisions by existing and potential investors.

Equity Mix

The equity mix or ratio shows how much of the company's assets are funded by shareholders' share capital. It measures the amount of shareholders' fund that a company employs through equity financing. To calculate the equity ratio, we divide total shareholders fund (equity) by total assets. If the ratio is high, it implies that company's management has minimized the use of debt to fund its asset, meaning that the management prefers to use more of equity to debt financing. Conversely, a low equity ratio indicates that a large amount of debt was used to finance the assets, as opposed to equity.

Long Term Debt Mix

The long-term debt mix or ratio is a solvency or coverage ratio that is used to evaluate a company's leverage by comparing total long term debt to its total assets. Put differently, the long-term debt-to-total-assets ratio is a measurement representing the percentage of a corporation's assets financed with long-term debt. It encompasses loans or other debt obligations lasting more than one year. Hence, it measures the relationship between the assets and the long term debt in terms of percentage. It also shows the total assets that a business would need to liquidate or pay off its long-term debt. It is important to note that Long term debt ratios provide a general evidence and measure of the long-term financial position of a company, including its ability to meet its financial obligations for outstanding loans.

Short Term Debt Mix

Short-term debt are simply current liabilities. These are short term obligations that are due to be paid within one accounting period (usually one year). Short term debt ratio indicates the ratio of short term debt or current liabilities to total assets of the firm. The higher the rate of short term debt, the more current obligations repayable within one year by the company. This affects the firm's liquidity. It is computed by dividing the firm's current liabilities by its total assets.

Firm Size

The size of a firm varies in many ways and it is essential to consider how the size affects the performance of listed firms. Meek (2007) opined that based on the information

asymmetry theory, large firms have lower costs of operations due to economies of scale. Hence this could lead to improved performance in terms of profitability. Large-sized firms may also have the advantage of raising more capital and/or stronger capital base than smaller firms and its attendant positive implications.

The relationship between firm size and performance had been greeted with mixed results in previous studies. For instance, Vijayakumar and Tamizhselvan (2010), found an inverse relationship between the two variables. Size is not only being studied as an independent variable for measuring performance of the firms but Rauch (2009) concluded that size of firms is an important moderator. Rauch (2009) in that analysis deeply observed number of researches which were conducted taking size of firm as a moderator and inferred a result that severity of impact of all the environmental factors changes with change in the size of organizations.

THEORETICAL REVIEW

This study was anchored on the Market timing theory. The market timing hypothesis was the brain-child of Baker and Wurgler (2002). They postulated that market timing is the first order determinant of a corporation's capital or financing structure than the use of debt and equity. In other words, firms do not generally care whether they finance with debt or equity, rather they choose the form of financing which, at that point in time, which seems to be more valued by financial markets. Hence the market timing theory is a theory of how firms and corporations in the economy decide whether to finance their investment with equity or with debt instruments. This theory contrasted with the pecking order theory, popularized by Myers and Majluf (1984) who argued that the cost of financing increases with asymmetric information.

Market timing is important to determine the companies' performance during proper financial structure (Baker and Wurgler, 2002). The theory states the market condition, perceptions and risk factors. It also suggests that when there is low cost of equity, companies offer equity or otherwise debt. The theory of market timing theory states that the managers need to be patient till the market conditions get better and shares give high return before equity issues and that prior to issue firms improve their performance (Miglo, 2010).

Empirical Review

Kerim, Alaji and Innocent (2019) studied the effect of capital structure on the profitability of listed Insurance firms in Nigeria using 15 out of the total 28 listed Insurance companies on the Nigeria Stock Exchange. The variables for the study were

short and long term debt as well as premium growth. The results of the findings revealed a significant and positive relationship between long term debt and profitability while short term debt had negative and significant relationship with profitability.

Ngokwe and Udeh (2019) investigated the effects of capital structure on financial performance of Food and Beverages companies in Nigeria between 2007 and 2016. The study specifically studied the effects of short term debt, long term debt and leverage on profitability. The study employed the ex-post factor research design. From the results of the multiple regression analysis, the study revealed that short term debt had positive effect on return on equity.

Olarewaju (2019) studied the dynamic relationship between capital structure and performance of quoted manufacturing companies in Nigeria between 1990-2016. Using Panel Vector Error Correction Model, the study revealed no dynamic relationship between capital structure and firm performance.

Ajibola, Wisdom and Qudus (2018) studied Capital structure and financial performance of listed manufacturing companies in Nigeria from (2005-2014) using listed manufacturing firms on the NSE. The study was anchored on the M&M and Pecking Order theories. Capital structure was proxy by Long term debt, Short term debt and Total debt, while ROA and ROE were used as dependent variables. Employing the Panel methodology and OLS technique, it was revealed that there was a negative insignificant relationship between all the proxies of capital structure (LTD, STD and TD) and ROA which makes ROE a better measure of performance.

Nenu, Vintilla and Gherghina (2018) investigated the impact of capital structure on risk and firm performance with evidence from Bucharest stock exchange, Romania for the period 2000-2016. Applying multivariate fixed-effects regression, the results showed that leverage was positively correlated with the size of the firm and the share price volatility. It also found out that debt structure had impact on corporate performance.

Schulz (2017) examined the impact of capital structure on firm performance using Dutch unlisted SMEs. The study was based on the Pecking Order and Trade-off theories. The study used Total leverage, Short term and long term debt ratios as proxies of capital structure while the ROA and ROCE were used to proxy performance. The empirical result showed a negative and very significant relationship between capital structure theories and ROA. However, the results of the ROCE and capital structure proxies were mixed.

Olaniyan, Soetan and Simon-Oke (2017) examined the Capital Structure-Firm Performance Relationship: Empirical Evidence from African Countries from 1996 to 2014. Anchored on the M&M theory, Pecking Order theory and Tradeoff theory, Debt

ratio was used as proxy for Capital structure while ROA, ROE, EPS and Tobin's Q were used as proxies of performance. Using the Generalized Method of Moments analysis model, the findings revealed that capital structure has a negative and significant relationship with firms' performance in Nigeria.

Basit and Irwan (2017) conducted a study on the Impact of capital structure on firm performance, evidence from Malaysian Industrial Sector firms. The study used the convenience sampling technique and used the debt-equity ratio, total debt ratio and total equity ratio as proxies of the independence variable. It also used the ROA, ROE and EPS as measures of the dependent variable. The result of the regression showed that debt-to equity ratio had negative impact on ROA, total debt ratio and total equity ratio has insignificant impact on ROA.

Further, Dada and Ghazali, (2016) studied the impact of capital structure on firm performance using 100 non-financial firms listed on the Nigerian Stock Exchange between (2010-2014) They anchored the study on M&M theory, Pecking Order theory, Tradeoff theory and Agency theory. Tobin Q and ROA were used to measure firm performance while capital structure was proxied by Debt ratio. Employing the Panel Regression method of analysis, the study found out that assets turnover and tangibles have positive relationship with Tobin's Q, it was also discovered that Sales growth had positive and significant relationship with ROA

Nassar S. (2016) carried out as study on the impact of capital structure on firm performance using 136 industrial companies listed on Istanbul Stock Exchange. The study was anchored on the M&M theory, Pecking Order theory, Tradeoff theory and Agency theory. He used the debt ratio as the predictor variable while the dependent variables were Earnings per share, Return on equity and Return on assets. Employing multivariate regression analysis, the Result showed a negative significant relationship between capital structure and firm performance.

Adesina, Nwidobie and Adesina (2015) studied capital structure and financial performance of quoted banks in Nigeria between 2005-2012. Equity and debt were used as proxies of capital structure. Their study, shows that capital structure had significant positive relationship with the financial performance of Nigeria quoted bank

Olaniyi, Elelu and Addulsalam (2015) studied the Impact of Capital Structure on Corporate Performance in the USA: A Pre and Post Crisis Evaluation of Selected Companies during (2003-2006), (2007-2008) and (2009-2012). The study made use of M&M theory, Pecking Order theory, Tradeoff theory, Agency theory and Market Timing theory. Dependent variables were- ROE, ROA, MPS and Tobin's Q, while independent variables were Debt Equity ratio and Firm size. Multiple Regression

Model was employed for analysis. The study finds mixed results such that impact of capital structure on corporate performance depends on the type of performance used and is period related.

In their study, Badar and Saeed (2013) examined impact of using firm's leverage capital structure on firm performance Pakistan (2007-2011) using all the Food sector listed on Karachi Stock Exchange, Pakistan. They employed Capital structure variables to be Long term debt to total assets(LTDTA), Total debt to assets (LTDTA), Total debt to total equity(TDE) and Short term debts to Total assets (STDTA), while firm performance variables were- ROA and Asset turnover ratio. Using regression analysis model the result of their findings showed that long term debt has positive and significant impact on firm performance, while short term debt has negative significant impact on firm performance.

On their part Onaolapo andKajola (2010) carried out a study Influence of Capital structure on firm financial performance Nigeria (2001-2007) using non-financial firms listed on Nigerian Stock Exchange Capital structure were measured using Debt ratio (DR) while ROA & ROE were used to measure firm performance. The study found out that capital structure had negative impact on financial firm performance.

From the review of related literature above as well as the study objectives, the following hypotheses stated in their null form were tested:

- H₀₁:** Equity mix has no significant impact on book value per share
- H₀₂:** There is no significant effect of Long term debt mix on book value per share.
- H₀₃:** There is no significant relationship between Short term debt mix and book value per share.
- H₀₄:** There is no significant effect of firm size on book value per share.

METHODOLOGY

This study adopts the ex post facto research designs in a bid to examine the functional relationship between financial mix and the market potentials of listed oil and gas firms. The data employed in this study was generated from of nine (9) listed oil and gas companies through the purposive sampling procedure which formed the sample of the study for the period of six years from 2013 to 2018. The random effect regression model was used in analyzing the relationship between the variables of study, after applying the Hausman Test. The results were computed using the Econometric Views (E-views) 9.5 version software.

Model Specification

In a bid to capture the impact of financing on firms' market performance, the study adopted the model that states that the market potential of listed firms (depicted by book value per share), depends on the financing structure (measured by Equity, Long term debt and Short term debt). The model also used the firm size (as the moderating variable). Accordingly, our model was stated functionally thus:

$$BVPS = f (EQUR + LTDR + STDR + FSIZ + U).$$

This is further restated in a regression model thus:

$$BVPS = \beta_0 + \beta_1 EQUR + \beta_2 LTDR + \beta_3 STDR + \beta_4 FSIZ + \mu$$

Where, BVPS=Book Value Per Share, EQUR= Equity Ratio, LTDR= Long Term Debt Ratio, FSIZ= Firm Size and U= Error Term

RESULTS AND DISCUSSION OF FINDINGS

Table 2: Descriptive Statistics

	<i>BVPS</i>	<i>EQUR</i>	<i>LTDR</i>	<i>STDR</i>	<i>FSIZ</i>
Mean	27.09444	0.299778	0.150000	0.548444	0.705111
Median	11.30000	0.280000	0.050000	0.610000	0.730000
Maximum	90.99000	0.980000	0.670000	0.830000	0.950000
Minimum	0.080000	-0.050000	0.000000	0.020000	0.020000
Std. Dev.	29.98910	0.162641	0.183253	0.233091	0.160661
Skewness	0.993412	1.699231	1.217256	-0.802081	-1.940974
Kurtosis	2.528047	8.615183	3.191484	2.527340	8.954338
Jarque-Bera	7.819147	80.77467	11.18159	5.243894	94.73187
Probability	0.020049	0.000000	0.003732	0.072661	0.000000
Sum	1219.250	13.49000	6.750000	24.68000	31.73000
Sum Sq. Dev.	39571.22	1.163898	1.477600	2.390591	1.135724
Observations	45	45	45	45	45

Source: Author's Computation using Eviews

Table 2 reports the results of our descriptive statistics. The mean, median, standard deviation, minimum and maximum values, the skewness and kurtosis measures were all presented. The JarqueBera statistics result showed that the data were normally distributed as expected.

Table 3: Hausman Test

Correlated Random Effects - Hausman Test

Equation: EQ01

Test cross-section random effects

<i>Test Summary</i>	<i>Chi-Sq. Statistic</i>	<i>Chi-Sq. d.f.</i>	<i>Prob.</i>
Cross-section random	8.752413	4	0.0676

Cross-section random effects test comparisons:

<i>Variable</i>	<i>Fixed</i>	<i>Random</i>	<i>Var(Diff.)</i>	<i>Prob.</i>
EQUR	22.193939	8.969354	73.242758	0.1223
LTDR	0.233427	-22.374118	138.243772	0.0545
STDTR	-42.351192	-23.951532	80.645617	0.0405
FSIZ	28.874332	13.301995	30.406706	0.0047

Cross-section random effects test equation:

Dependent Variable: BVPS

Method: Panel Least Squares

Date: 02/27/20 Time: 10:16

Sample: 2013 2017

Periods included: 5

Cross-sections included: 9

Total panel (balanced) observations: 45

<i>Variable</i>	<i>Coefficient</i>	<i>Std. Error</i>	<i>t-Statistic</i>	<i>Prob.</i>
C	-475.0440	148.9703	-3.188851	0.0032
EQUR	22.19394	78.36060	0.283228	0.7788
LTDR	0.233427	87.96903	0.002654	0.9979
STDTR	-42.35119	79.73539	-0.531147	0.5990
FSIZ	28.87433	7.351115	3.927885	0.0004

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.953014	Mean dependent var	27.09444
Adjusted R-squared	0.935394	S.D. dependent var	29.98910
S.E. of regression	7.622537	Akaike info criterion	7.136947
Sum squared resid	1859.298	Schwarz criterion	7.658871
Log likelihood	-147.5813	Hannan-Quinn criter.	7.331515
F-statistic	54.08769	Durbin-Watson stat	1.840179
Prob (F-statistic)	0.000000		

Source: Author's Computation using Eviews

Table 4: Random Effect Regression Result

Dependent Variable: BVPS
 Method: Panel EGLS (Cross-section random effects)
 Date: 02/27/20 Time: 10:15
 Sample: 2013 2017
 Periods included: 5
 Cross-sections included: 9
 Total panel (balanced) observations: 45
 Swamy and Arora estimator of component variances

<i>Variable</i>	<i>Coefficient</i>	<i>Std. Error</i>	<i>t-Statistic</i>	<i>Prob.</i>
C	-198.0495	112.8174	-1.755488	0.0868
EQR	8.969354	77.89185	0.115151	0.9089
LTDR	-22.37412	87.17974	-0.256644	0.7988
STDR	-23.95153	79.22807	-0.302311	0.7640
FSIZ	13.30200	4.861294	2.736308	0.0092
Effects Specification				
			<i>S.D.</i>	<i>Rho</i>
Cross-section random			38.48484	0.9623
Idiosyncratic random			7.622537	0.0377
Weighted Statistics				
R-squared	0.210933	Mean dependent var		2.390606
Adjusted R-squared	0.132026	S.D. dependent var		8.654151
S.E. of regression	8.062649	Sum squared resid		2600.253
F-statistic	2.673194	Durbin-Watson stat		1.536160
Prob(F-statistic)	0.045692			
Unweighted Statistics				
R-squared	-0.591304	Mean dependent var		27.09444
Sum squared resid	62969.85	Durbin-Watson stat		1.622140

Source: Author's Computation using Eviews

DISCUSSION OF FINDINGS

First, the Hausman Test was employed to determine whether the random or fixed effect regression should be used in the study. Given the Chi-square statistic of 8.75 and the p-value of 0.0676, the random effect regression model was chosen.

From the results obtained from the random effect regression, only equity ratio and firm size are positively signed while both short and long term debt ratios are

negatively signed but only firm size was found to significantly influenced the book value per share of the oil companies. The positive relationship between EQUR and BVPS was consistent with the apriori expectation and indicates that increase in the equity financing could enhance the book value of the firm. This was in agreement with the findings of Adesina, Nwidobie and Adesina(2015), who studied capital structure and financial performance of quoted banks in Nigeria between 2005-2012 and found that capital structure had significant positive relationship with the financial performance of Nigeria quoted banks. The reason is that the use of equity capital reduces the firm's expenses, as no interest cost accrues to the equity holders. On the contrast, long and short term debt financing mixes were found to have negative influences on BVPS; but neither of them was statistically significant at 5% level of significance. The negative signs on these variables were also in conformity with the apriori expectation and implied that increase in debt, either short or long term, reduces the financial performance of the firm. The negative effects of these variables stem from the fact that increasing debt ratio increases the cost of the firm due to interest payable on such facilities. Although, such funds provide a quick source of financing business activities, but they must be settled out of the returns made by the firm. This result agrees with the findings of Onaolapo andKajola (2010), who found a negative impact of debt on a firm's financial performance.

Lastly, the significant positive relationship between firm size and firm book value implies that as a firm continues to grow, its book value per share is likely to increase because investors will have more claims on the assets of the firm. The reason is that scale economies is likely to increase with increase in size of the firm; and such firms are better able to without shocks that may arise from time to time.

CONCLUSION AND RECOMMENDATIONS

This study examined the influence of financing mix on market potentials of firms (particularly the book value per share). From the results obtained from the random effect regression model, equity and firm size had positive effects on book value per share of the oil companies, whereas both short and long term debts were negatively signed. The positive relationship between EQUR and BVPS indicates that increase in the equity ratio can enhance the book value of the firm. However, debt ratio (short or long term) have negative effects on the BVPS. This implies that increase in the debt ratio reduces the market value of the firm. The study therefore concludes that firms with greater financing mix are likely to have better market performance than those who operate with higher debt capital structure. It was recommended that financial managers should strive to have optimal financing mix that will ensure improved market performance of their firms at all times.

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