

**AN EMPIRICAL ANALYSIS OF THE CAPITAL STRUCTURE OF
SELECTED QUOTED COMPANIES IN NIGERIA
(1990-2004)**

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ABSTRACT

This study carried out an empirical analysis of capital structure of selected quoted companies in Nigeria. Specifically, it examined the effects of the identified determinants of capital structure of quoted companies on leverage and also analysed the impact of capital structure on profitability of quoted companies in Nigeria. This was with a view to establishing the pattern of capital structure choice and the underlining factors influencing it.

This study used secondary data collected from the Annual Report and Accounts of the sampled firms and Fact Books published by the Nigerian Stock Exchange. A sample of 50 non-financial quoted companies was randomly purposively selected for analysis. The Pooled Ordinary Least Squares (OLS) model, Fixed Effect Model (FEM) and Random Effect Model (REM) were used in the analysis, which covered the panel data from 1990 to 2004. In addition, causal relationship between capital structure and profitability was tested using Granger-causality Tests.

The empirical result showed that debt financing for listed companies in Nigeria corresponds mainly to a short-term debts nature, with a mean value of 60%. Also, profitability had experienced a downward trend in growth with the average growth rate standing at a negative 41%. Moreover, the impact of capital structure on the profitability was not significant ($t = -0.6709$, $p > 0.05$), but there was a positive relationship between profitability and short-term debt. The study showed that, there was a significant positive relationship between asset structure (tangibility) and long-term debt ratio ($t = 2.228$, $p < 0.05$) and a significant negative relationship between asset structure and short-term debt ratio ($t = 4.510$, $p = 0.001$) for the overall sampled groups. In addition, collateral appeared to influence all bank borrowing in Nigeria, whether short-term or long-term. More importantly, the size of the company was found to have a statistically significant positive relationship with both total debt and short-term debt ratios for the sample (with t

= 3.0572, $p < 0.05$ and $t = 3.0150$, $p < 0.05$ respectively). Thus, the chi-square statistics shows that profitability has significant causal effect on leverage ($\chi^2 = 55.168$, $P < 0.01$). Similarly, there was a significant causal nexus from leverage to profitability ($\chi^2 = 9.377$ and $P < 0.05$). Therefore, there is a significant bi-directional causality between profitability index and leverage i.e. capital structure.

The study concluded that profitability, tangibility and size of the company were the major determinants of the capital structure of Nigerian quoted companies and they were either financed by equity or a mix of equity and short-term debt. Nigeria firms should adopt appropriate steps to lengthen the maturity structure of corporate debt.