THE INTERNATIONAL JOURNAL OF BUSINESS & MANAGEMENT

Effect of Corporate Growth Indicators on the Financing Decision of Transportation and Logistics Firms in Nigeria

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Abstract:
The study examined the effect of corporate growth indicators on the financing decision of transport and logistics firms in Nigeria. Total asset, earnings per share, and turnover were the corporate growth indicators used for the study, while debt-equity ratio was the dependent variable of the study. The study adopted an ex-post-facto research design, covering the period between 2012 and 2018. Secondary data were extracted from the annual reports and accounts of the sampled transport and logistics firms in Nigeria. Multiple regression analysis was used for the panel data analysis. In line with the specific objectives of the study which is to ascertain the effect of total asset, earnings per share, and turnover on debt-equity ratio of transport and logistics firms in Nigeria, it was revealed that total asset negatively and insignificantly affect financing decision of transport and logistics firms in Nigeria. Earnings per share and turnover have a positive and significant effect on financing decision of transport and logistics firms in Nigeria. Since additional asset increases profit and the use of retained earnings, transportation and logistics firms are encouraged to identify and work on means to increase their total assets since it reduces their debt-equity ratio. They should always strive to improve their profitability because of the positive effect on debt-equity ratio. They should strive to increase their quotation price on the Nigeria Stock Exchange in spite of the negative effect it will have on their debt-equity ratio. They should strive to increase their turnover so as to increase their profit and growth potentials which will enable them to make investment in a sector severely hit by Covid-19 pandemic.

Keywords: *Capital Structure, financing, growth, transport and logistics*

1. Introduction

1.1. Background of the Study

In order to grasp how companies, fund their activities, it is essential to ascertain the determinants of their corporate financing decisions. Corporate finance decisions require management to make a wide range of policies. Green, Murinde and Suppakitjarak, (2012) submit that as the private firms face challenges on making decisions as it concerns capital market development and regulation, it also posits affect the capital structure. Booth (2011) states that information relating to capital structures has majorly been derived from developed economies.

The main goal for a firm going public is to increase the welfare of shareholder by attaining maximum growth (Salvatore, 2015). The position of Salvatore was backed by Bringham and Gapensi (2006), who are of the view that the firm's financing decision is very important since the firm's growth depends on it. Goyal (2013), submits that for a company to achieve growth objective of a company, the management should make adequate and effective decisions as it concerns capital structure. Mohammadzadeh, Rahimi, Rahimi, Aarabi, and Salamzadeha (2013) posits that the structural composition of the capital of a company or organization will have an impact profitability potential. Due to the relationship between capital structure and profitability, firm managers always strive to reach a suitable form of financing decision mixof financial resources and the proper capital structure.

In reality, the financing decision is the hardest decision to make in management of an organization. San and Heng (2011) note that it is difficult for financial managers to actually as certain the optimal capital structure. Before a firm will select the finance source to use in financing its activities, there should be a well-defined empirical strategy to be adopted so that the endpoint of financing a business, which is economic value creation, will be achieved. The effect of using equity capital in higher proportion as it relates to equity capital and retained earnings should be examined so as to not incur a loss at the end. This is also applicable to retained earnings and equity capital of firms.

Nigeria has seen a lot of its transport network fall into dilapidation in the wake of extraordinary ongoing economic recession and population growth, as well as many years of under-investment in basic transport infrastructure. Although increase in passenger and cargo demand keeps on straining nearly all segment of Nigeria's transport sector, the

nation has gained admirable ground in reducing urban congestion over the course of 2017 and 2018, by investing its resources into basic infrastructure projects and expanding private sector involvement in the development of transport arteries. However, the Nigeria's economic growth has still been influenced negatively by absence of a well-developed transportation and logistics sector. In spite of the infrastructural inadequacy which has been further hampered by Coronavirus pandemic, Nigeria is relatively advanced in terms of infrastructure networks in comparison to many of its African peers because its network covers a vast area of its territory. These inadequacies in the transport and logistics sector have become an impediment to the country's growth. Apart from Nigeria's poor infrastructure that has constrained growth in the transportation and logistics sector, lack of fund and investments in this sector has further limited their growth potentials. The sector is in serious lack of capital to make technological advancement like their counterparts in developed economies. This has resulted to industry risks such as time delays, bottlenecks for international shipments, inadequate tracking and tracing capabilities and below average logistics quality and competence that weigh on growth prospects for transport and logistics sector. The challenges faced by this sector during this coronavirus pandemic further justifies the essence of firms in this sector to make adequate financing decision that will enable them make profit. Majority of these companies are yet to be listed on the Nigeria Stock Exchange(only 8 transport and logistics companies are listed on the Nigeria stock exchange)hence, depends majorly on retained earnings and debt for financing because they could not source for equity capital from the public through issuance of shares on the Nigeria stock exchange making them lack adequate finance sources for growth and investment. Consequently, the study attempts to ascertain factors that determines the financing decision of transport and logistics firms in Nigeria by determining the effect of total asset, earnings per share, and turnover on debt-equity ratio of transport and logistics firms in Nigeria.

2. Review of Related Literature

2.1. Concept of Debt-Equity Ratio

When analysts talk about capital structure, they are presumably referring to a firm's debt-to-equity Enekwe (2012) posits that debt to equity ratio could also be a financial ratio that shows the proportion of equity and debt used to finance a company's assets which is an indicator of the financial leverage. The ratio shows how much naira of debt was used for one-naira worth of equity capital.

2.1.1. Total Asset

Maggina and Tsaklanganos (2012) state that assets are economic resources of a company expected to benefit the firm's future operations. They also stated that some kinds of assets are in monetary terms such as cash and accounts receivables, while others like inventory, land, buildings, furniture, and equipment are non-monetary assets. Sloan (2004) classified assets into, current, non-current and intangible assets. Non-current assets include building, machinery, plant, furniture and fittings among others.

2.1.2. Earnings per Share

Earning is an important is the grease in the wheel of a firm that aims towards growth and shareholders wealth maximization. Earnings per share (EPS) is an essential profitability indicator. Pushpa,Bhatt, and Sumangala (2012) defined earnings per share as the revenue earned by a company that is allotted to the shares of the equity shareholders. Inyiama and Ozouli (2014) opine that ordinary shares could also reflect the performance and managerial efficiency of those who manage the firms at all point in time.

2.1.3. Turnover

Turnover is a word that describes the amount of income that a company receives from its normal business activities. It can include sales income and consultancy fees. It can be referred also as total income. It is the entirety of a wide range of income generated by an enterprise during an accounting period, which includes income generated from continuing operations as well as income from discontinuing operations. It includes income generated during the normal course of business as well as extraordinary or exceptional income (Ramlall, 2009).

2.2. Theoretical Framework

This study is anchored on two outstanding theories of capital structure combines an enlarged theoretical underpinning such as Static Trade-off Theory propounded by Kraus and Litzenberger (1973) and Pecking Order Theory propounded by Myers and Majluf (1984).

2.2.1. Static Trade-off Theory

Capital structure theories have diverse views on the relationship between leverage and profitability. The trade-off theory argues that firms generally prefer debt for tax considerations. Myers (1984) submit that profitable firms borrow more funds because as their financial leverage increases so would the value of their debt tax shield. Other than the tax advantage of debt finance, agency and bankruptcy costs may encourage highly profitable firms to have more debt in their capital structure.

2.2.2. Pecking Order Theory

The pecking order theory of capital structure goes in opposition to firms having a remarkable blend of debt and equity finance, which limit their cost of capital. The theory proposes that when a firm is searching for approaches to

finance it drawn out business activities, it has an all-around order of preference for the sources of finance it employs. The theory posits that a firm's initial preference ought to be the usage of internal funds (retained earnings), followed by debt and then external equity. He argues that as firms become more profitable, they would have sufficient internal finance to undertake their investment projects, consequently, borrow less.

2.3. Empirical Review

Nenu, Vintilă, and Gherghina (2018) examined the effect of capital structure on firm performance of Bucharest stock exchange-listed companies between 2000 and 2016. Using multiple regression techniques, the results showed that leverage is positively correlated with the firm size and the share price volatility.

Nassar (2016) examined the effect of capital structure on the financial performance of industrial firms in Turkey from 2005-2012. A multivariate regression analysis was used for the study. The study found that capital structure has a negative significant effect on firm performance. Li and Wang (2019) examined the effect of capital structure on product-market competitiveness of Chinese firms. Using regression techniques, the study found that capital structure has a significant effect on the product-market competitiveness of firms.

Nirajini and Priya (2013) examined the relationship between capital structure and performance of quoted companies in Sri Lanka. Correlation and regression techniques were used for analysis. They found that capital structure has a positive relationship with financial performance.

Abdul and Badmus (2017) ascertained the effect of leverage (equity) and debt ratio on return on assets of chemicals and paints firms listed on the Nigerian Stock Exchange. Ordinary Least Square (OLS) techniques were used for data analysis. It was revealed that equity finance had a significant and positive effect on ROA while the debt ratio hasa negative and insignificant effect on the performance measures.

Abubakar (2017) examined the impact of financial leverage on the financial performanceof non-financial firms listed on the Nigerian Stock Exchange. Random Effects Model multiple regression techniques was used to test the hypotheses. The study revealed that total-debt equity ratio has appositiveand significant effect on financial performance. Kenn-Ndubuisi and Nweke (2019) evaluated the correlation between financial leverage and financial performanceof 80 non-financial firms listed on the Nigerian Stock Exchange. Panel regression models was applied to test the stated hypotheses. The findings of the study revealed that earnings per share negatively and significantly correlated with debt to equity ratio. Akani and Kenn-Ndubuisi (2017) examined the effect of capital structure and board structure on firm performance of listed companies in the Nigerian Stock Exchange (NSE) during period between 2008 and 2016. Using Vector Auto regression (VAR) test, it was revealed that a significant negative relationship exists between capital structures (debt-equity ratio) and financial performance measured by ROA and ROE.

Ogiriki, Andabai, and Bina (2018) examined the effect of financial leverage on corporate performance of Nigeria firms. Employing the Ordinary Least Square (OLS) analytical technique the study found that return on asset and return on equity had a positive and significant effect on the long-term debt.

John-Akamelu, Iyidiobiand Ezejio for (2017) examined the effect of financial leverage on financial performance of food producing firms in Nigeria. Using paired sample t-test analysis, it was revealed that financial leverage has no significant effect on the earnings per share of food producing firms in Nigeria. However, financial leverage has significant effect onreturn on equity and return on assets of these companies.

Adenugba, Igeand Kesinro (2016) examined the relationship between financial leverage and firms' value of firms listed on the Nigerian Stock Exchange. Ordinary Least Square (OLS) analytical technique was used to analyse the data extracted from the annual report and accounts of these firms. It was revealed that financial leverage has a strong relationship with firms' value. Rehman (2013) investigated the association between financial leverage and financial performance oflisted sugar companies in Pakistan. The results show that a positive relationship exist between debt-equityratio and return on asset and sales growth. However, a negative correlation exists between debt-equity ratio and net profit margin, earning per share, and returnon equity. From the foregoing empirical literature, the effect of capital structure on financial performance had already been vastly researched in Nigeria. However, these studies did not attempt to ascertain the effect of corporate growth indicators on the financing decision of transportation and logistics firms. This creates a research gap which this current study will fill by trying to examine the growth indicators that determines the capital structure of transportation and logistics firms in Nigeria.

3. Methodology

3.1. Research Design

The study adopted ex-post-facto (after the facts) research design. This is because the study was based on historical data. The study made use of secondary data. The data was extracted from published audited annual report and accounts of the sampled transportation and logistics firms listed on the Nigerian Stock Exchange (NSE) for the period between 2012 and 2019. The population of the study is the eight transportation and logistics firms listed on the Nigeria Stock Exchange as of December 2019.

The model for this study was specified as follows:

$DER_t = \beta_o + \beta_1 TA_t + \beta_2 EPSt + \beta_3 TO_t + \varepsilon_t$ - [Equation (1)]

Where,

DER: Debt-Equity Ratio
TA: Total Asset
EPS: Earnings Per Share

TO:	Turnover
Ɛ	Stochastic Disturbance (Error) Term
β_o	Coefficient (constant) to be estimated
$\beta_i - \beta_3$	Parameters of the independent variables to be estimated
t	Current period

4. Data Analysis

Variables	Statistics and Values			Decision	Order of Integration
	Statistics	Prob(Levels)	1st Diff		
DER	Levin, Lin and Chu	0.0029	___	Reject Ho	I(0)
EPS	Levin, Lin and Chu	0.2954	0.0031	Reject Ho	I(1)
TO	Levin, Lin and Chu	0.3028	0.0000	Reject Ho	I(1)
TA	Levin, Lin and Chu	0.7869	0.0171	Reject Ho	I(1)

Table 1: Result of Panel Unit Root Tests
Source: Computed by Researcher Using Eviews 10.0 Statistical Software

The table above shows the results of the unit root test for the variables used in this study, the Levin, Lin and Chu test. The result of the test shows that debt-to-equity ratio is stationary at levels. Also, Total Assets and Turnover appear to be stationary after the 1st difference. Earnings per share also is stationary at the 1st differences. This represents the level of stationarity of the variables used in this study. However, to continue with the analysis, we conduct co-integration test to determine if the variables have a long-run relationship. This will be done with the Johansen Co-integration test.

Residual Variance	HAC Variance	ADF	
0.695866	0.531364	**t-statistic**	**Probability**
		-3.926603	0.0000

Table 2: Results of Kao (Engle-Granger based) Co-Integration Test
Source: Computed by Researcher Using Eviews 10.0 Statistical Software

- H_0: There is no co-integration
- Decision Rule: Reject the null hypothesis if p-value of ADF is less than 0.05.
- Decision: The result of the Kao (Engle-Granger based) Co-integration test shows that there exists a stable long-run relationship between the variables under study. This is because the probability value of the ADF is less than 0.05. Hence, thevariables are co-integrated.

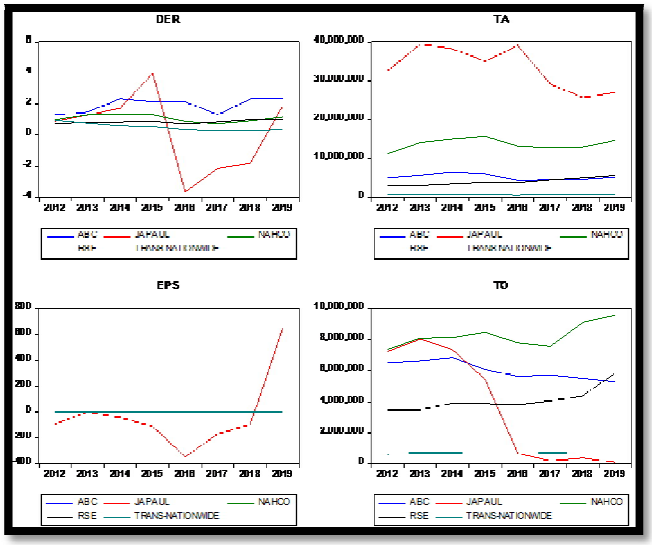

Figure 1: Panel Data Line Graph for the Focal and Explanatory Variables
Source: Computed by Researcher Using Eviews 10.0 Statistical Software

From the graph in Figure 1, it was revealed pattern of movement of both the focal variable (debt-equity ratio) and the explanatory variables (total asset, earnings per share, and turnover). The table shows that debt-equity ratio has similar pattern of movement with total asset and turnover of transportation in Nigeria. However, earnings per share has a distinct pattern of movement. The implication of the movement pattern is that the higher the total asset and turnover, the higher transportation and logistics firms in Nigeria finance their activities with borrowed fund as can be seen from the curve. This is the nature of the movement of the data gotten from the financial statements of the sampled transportation and logistics firms in Nigeria.

	DER	TA	EPS	TO
Mean	0.910442	11335668	-5.102890	4562606.
Median	0.909419	5341320.	0.007950	5368018.
Maximum	3.966022	39406911	650.0000	9570197.
Minimum	-3.660980	569583.0	-347.0000	85853.00
Std. Dev.	1.247205	12149515	124.3053	3020023.
Skewness	-1.381262	1.203346	3.164265	-0.174963
Kurtosis	7.447241	3.123211	21.90101	1.649362
Jarque-Bera	45.68249	9.678905	662.1643	3.244452
Probability	0.000000	0.007911	0.000000	0.197459
Sum	36.41766	4.53E+08	-204.1156	1.83E+08
Sum Sq. Dev.	60.66528	5.76E+15	602620.7	3.56E+14
Observations	40	40	40	40

Table 3: Descriptive Statistic of the Focal & Explanatory Variables
Source: Computed by Researcher Using Eviews 10.0 Statistical Software

Table 3 above reveals the variable description of the 40 observations. From the table, the minimum debt-equity ratio is -3.66 while the maximum debt-equity ratio in the industry is 3.97. The normality of the distribution of the data series is shown by the coefficients of Skewness, Kurtosis, and Jarque-Bera Probability. From the result above, DER (1.381262), TA (1.203346), and EPS (3.164265) are abnormally distributed with a skewness coefficient greater than one. TO on the other hand is normally distributed with a skewness coefficient less than one (--0.174963). The kurtosis coefficient also suggests that DER (7.447241), TA (3.123211), and EPS (21.90101) are abnormally distributed with a Kurtosis coefficient greater than three. Meanwhile, the Kurtosis coefficient for TO (1.649362) suggests that the data are normally distributed. An insignificant Jarque-Bera Probability for TO further justify that the data are normally distributed. This is the case of the data extracted from annual reports and accounts of sampled transportation and logistics firms in Nigeria.

	DER	TA	EPS	TO
DER	1.000000	-0.177898	0.503776	0.570287
TA	-0.177898	1.000000	-0.162358	0.203874
EPS	0.503776	-0.162358	1.000000	-0.058630
TO	0.570287	0.203874	-0.058630	1.000000

Table 4: Correlation Analysis Result
Source: Computed by Researcher Using Eviews 10.0 Statistical Software

From the correlation analysis result in Table 4it was revealed that there exists a strong and positive relationship between DER/EPS and DER/TO. However, DER and TA have a weak and positive relationship. This implies that EPS and TO have a significant relationship with DER hence, the more transportation and logistics firms acquire assets and grow in profit, the more they borrow for funding.

Dependent Variable: DER **Method: Panel Least Squares** **Date: 07/11/20 Time: 15:15** **Sample: 2012 2019** **Periods Included: 8** **Cross-Sections Included: 5** **Total Panel (Balanced) Observations: 40**				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.814344	0.619121	-1.315321	0.1977
TA	-3.25E-08	7.03E-08	-0.462637	0.6468
EPS	0.004701	0.001090	4.313770	0.0001
TO	4.64E-07	9.79E-08	4.739660	0.0000
	Effects Specification			
Cross-Section Fixed (Dummy Variables)				
R-squared	0.702217	Mean dependent var		0.910442
Adjusted R-squared	0.637077	S.D. dependent var		1.247205
S.E. of regression	0.751355	Akaike info criterion		2.442980
Sum squared resid	18.06510	Schwarz criterion		2.780756
Log likelihood	-40.85959	Hannan-Quinn criter.		2.565109
F-statistic	10.78010	Durbin-Watson stat		2.063365
Prob(F-statistic)	0.000001			

Table 5: Multiple Regression Result of Industry Level Panel Data
Source: Computed by Researcher Using Eviews 10.0 Statistical Software

Table 5 reveals that TA (0.6468) has an insignificant effect on DER. However, EPS (0.0001) and TO (0.0000) have a significant effect on DER. The t-Statistic that is greater than 2 for EPS and TO further shows its significant effect on DER. The table further depicts that a unit change in EPS and TO will increase DER by 0.004701 and 4.64E-07 respectively. While a unit change in TA results to 3.25E-08 decrease in DER. The adjusted R-squared (R^2) indicates that about 64% of the change in DER will be accounted for by the explanatory variables. The remaining 26% could be explained by other factors capable of influencing debt-equity ratio of transportation and logistics firms in Nigeria. The probability of the F-statistic is significant which shows the statistical fitness of the multiple regressions. There is an absence of serial autocorrelation in the panel data extracted from annual reports and accounts of sampled transportation and logistics in Nigeria as suggested by Durbin-Watson stat of 2.063365.

4.1. Test of Hypotheses

The three principal testable hypotheses formulated in section one in an attempt to ascertain the effect of corporate growth indicators on the financing decision of transportation and logistics in Nigeria. These hypotheses were tested using the following decision rule: Reject H_0 if the P-value tabulated is less than the A-value calculated (0.05) and accept the null hypotheses if reverse becomes the case.

4.1.1. Hypothesis One

Total asset does not significantly affect the debt-equity ratio of transportation and logistics firms in Nigeria.

- Decision: From the panel regression analysis, the P-value of 0.6468is > 0.05 A-value and the 0.462637 t-statistic is < 2. Therefore, the null hypothesis is accepted and the alternative hypotheses rejected. This implies that total asset does not have a significant effect on debt-equity ratio of transportation and logistics firms in Nigeria.

4.1.2. Hypothesis Two

Earnings per share does not significantly affect the debt-equity ratio of transportation and logistics firms in Nigeria.

- Decision: From the panel regression analysis, the P-value of 0.0001 is < 0.05 A-value and the 4.313770 t-statistic is > 2. Therefore, the null hypothesis is rejected and the alternate hypotheses accepted. This implies that earnings per share has a significant effect on debt-equity ratio of transportation and logistics firms in Nigeria.

4.1.3. Hypothesis Three

Turnover has no significant effect on the debt-equity ratio of transportation and logistics firms in Nigeria.

- Decision: From the panel regression analysis, the P-value of 0.0000 is < 0.05 A-value and the 4.739660t-statistic is > 2. Therefore, the null hypothesis is rejected and the alternate hypotheses accepted. This implies that turnover has a significant effect on debt-equity ratio of transportation and logistics firms in Nigeria.

4.2. Discussion of Results

In the test of hypotheses one, the regression analysis result revealed that total asset has a negative and insignificant effect on debt-equity ratio of transportation and logistics firms in Nigeria. This implies that as total asset increases, the firm borrows more fund to finance their activities. This is in tandem with the findings of Akani and Kenn-Ndubuisi (2017), Nassar (2016), and Abdul andBadmus (2017)who found a negative relationship between debt-equity ratio and financial performance. However, Nirajini and Priya (2013), and Li and Wang (2019)made a different observation.

In the test of hypothesis two, the regression result revealed that earnings per share has a positive and significant effect on debt-equity ratio of transportation and logistics firms in Nigeria. This implies that profitable firms borrow more cash because they have the capacity to pay back. The finding is consistent with the findings of John-Akamelu, Iyidiobi and Ezejiofor (2017), Ogiriki, Andabai, and Bina (2018), and Abubakar (2017) who made similar findings. However, Rehman (2013), Kenn-Ndubuisi and Nweke (2019), made dissimilar observation which can be attributed to the sector and geographical disparity between the two studies.

In the test of hypotheses three, the regression result revealed that turnover has a positive and significant effect on debt-equity ratio of transportation and logistics firms in Nigeria. This implies that as the transportation and logistics companies make more turnover, they have more leverage to borrow. Abubakar (2017), made similar observations.

5. Summary and Conclusion

Sequel to the data analysis and in tandem with the test of hypotheses, the findings are summarized as follows:

- Total Asset negatively and insignificantly effect on debt-equity ratio of transportation and logistics firms in Nigeria.
- Earnings per share positively and significantly affect debt-equity ratio of transportation and logistics firms in Nigeria
- Turnover positively and significantly affect debt-equity ratio of transportation and logistics firms in Nigeria.

The findings suggest that as transportation and logistics firms use more of equity capital to finance their activities other than debt which contradicts the trade-off theory that argues that firms generally prefer debt for tax considerations. However, it signifies that as these firms acquires more assets, they generate more profit as well as increased retained

earnings which replaces the use of borrowed fund for financing their activities. Earnings per share and turnover which are measures of profitability and growth positively and significantly affect debt-equity ratio of transportation and logistics firms. This is in tandem with the researcher's expectation that profitability gives a firm the leverage to borrow.
The study therefore recommends that:

- Since additional asset increases profit and the use of retained earnings, transportation and logistics firms are encouraged to identify and work on means to increase their total assets since it reduces their debt-equity ratio. This is in tandem with the pecking order theory which argue that firms generally prefer debt finance because of tax considerations.
- They should always strive to improve their profitability because of the positive effect on debt-equity ratio.
- They should strive to increase their turnover so as to increase their profit and growth potentials which will enable them to make investment in a sector severely hit by Covid-19 pandemic.

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