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Impact of Corporate Governance and Firm Specific factors on Capital Structure of Publicly Listed Non-Financial Firms in Nigeria

By

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Abstract

This study examined the impact of corporate governance and firm-specific variables on the capital structure of non-financial companies listed on the Nigerian Stock Exchange from 2006 to 2020. The study utilized secondary data obtained from a sample of 58 publicly listed companies. Generalized method of moments technique was used to analyze the data. The findings revealed that liquidity, return on equity, non-current asset, and debt tax shield were found to have positive and significant influence on long term debt to asset. Tangibility, returns on asset, board and block ownership were found to have negative and significant influence on long term debt to assets. In addition, all firm specific and corporate governance factors have significant influence on long term debt to equity. These findings are consistent with prior studies and provide important insights for firms, investors and policy makers desiring to know much about optimal capital structure decisions. Thus, the study recommended that Nigerian companies should monitor their liquidity levels, and strive for profitability to reduce debt burdens in their financing decisions.

Keywords: Capital structure, corporate governance factors, Firm specific factor, Publicly-quoted, Non-financial firms.

1.0 Introduction

Capital Structure is the mix of equity and long term debt sources of finance kept by the company for its operations and investment purposes. Robust capital structure is very important for the company as it helps to maximize the shareholder's capital while minimizing the cost of capital for the company. Most companies maintain a target capital, even though the debt-equity mix may vary over time (Gitman & Zutter, 2012). Firms' profitability and sustainability are impacted one way or the other by various factors among which is the capital structure, which in turn is also influenced by both corporate governance

and firm specific factors. Growth and financial stability are supported by corporate governance, which entails having the rules and policies that govern the interaction between a company's management and its shareholders, as well as other stakeholders like its employees and creditors (OECD 2004). Firm specific factors are factors that are peculiar to each organization but are considered very important in making decisions regarding capital structure; they include profitability, liquidity, asset structure, debt effectiveness and many others. These factors and corporate governance variables such as

board ownership, block ownership and board independence have influence on decisions regarding capital structure and are salient areas in corporate finance that are crucial for maximizing shareholders' returns, firm value enhancement, smooth running of firms operation and even the ability of firms to survive amidst competitions. Corporate governance is a set of rules, regulations, strategies, and tools that are used to run and control a business. (Organization for Economic Cooperation and Development, 2004). So, good corporate governance is the set of rules and practices that govern the relationship between a company's managers and shareholders, as well as other stakeholders like employees and creditors. This helps growth and financial stability by supporting market confidence, financial market integrity, and economic efficiency (OECD, 2004). Conceptually, corporate governance is about balancing the needs of different groups, such as shareholders, managers, employees, customers, suppliers, creditors, loan givers, governments, and the community. Corporate governance variables are beneficial to non-financial firms in that they help to improve access to finance, reduced cost of capital, and enhanced performance (Fahad & Rahman, 2020).

The primary goal of effective corporate governance is linked to the company's accountability, responsibility, and mechanisms in promoting ethical conduct and safeguarding the interests of shareholders, which includes fulfilling obligations such as the payment of corporate taxes and other related dues (Waluyo, 2017). It is only when managers are accountable and ethically upright that they efficiently manage funds, run the business and generate high profitability in the interest of the shareholders. In order to enhance market value and reduce cost of capital, managers need to get an optimum mix of equity and debt, which is the primary aim of capital structure (Bokpin & Arko, 2010).

The importance of capital structure was first introduced by Modigliani and Miller's (1958), in which they posited that in a perfect capital market, the market value of a firm is independent of the source of funding utilized to undertake investments. The reason for this is that investors can borrow or lend money at a standardized interest rate to counteract the effect of funding investments, since in this market, there is no transaction cost, no information asymmetry, no taxation, no bankruptcy cost and there is free entry and exit; it is therefore expected that the weighted average cost of capital (WACC) remains constant regardless of the proportion of

equity and debt utilized. However, in 1963, their position changed due to the effect of tax shield, as interest paid on debt is allowed as deductible expense for tax, thus reduces the amount of tax liability and increases the profit available to shareholders. This in turn reduces the weighted average cost of capital and enhances the market value of the firm. The prevailing body of literature concentrates on scrutinizing corporate governance and capital structure in developed countries, as exemplified by the scholarly contributions of Shelkh and Wang (2012) and Welalage, Locke, and Acharya (2018). Certain scholars (Ekreози, 2013; Lious, Cecilio, & Felix, 2016; Miguel et al., 2015) concentrated exclusively on the company-specific factors that influence capital structure within developed economies.

The relationship between corporate governance and firm-specific factors in determining the capital structure of companies operating in developing economies, such as Nigeria, has not been adequately emphasised. In developing economies like Nigeria, less attention is placed on the combination of firm-specific and corporate governance factors that affect the capital structure of firms. Nigeria has weak corporate governance and a weak capital market. This was made pronounced when overstatements were found in Cadbury Nigeria Plc.'s 2007 accounts, due

to poor corporate governance and weak management control.

Prior studies conducted in emerging economy have predominantly concentrated on investigating the influence of either firm-specific variables on capital structure or corporate governance variables on the capital structure of non-financial quoted firms. The impact of the combination of corporate governance and firm-specific factors on the capital structure of non-financial quoted firms in developing countries, particularly in the context of weak capital markets and poor corporate governance, such as in Nigeria, has received insufficient scholarly scrutiny, this constitutes a gap that this paper seek to fill.

In addition, long term debt to asset and long term debt to equity are the primary components that constitute the capital structure of a firm. Prior research employed long-term debt to asset, short-term debt to asset and total debt to asset as proxies for capital structure. Nevertheless, the equity aspect of the capital structure, specifically long-term debt to equity on capital structure, has received limited attention in prior research and this constitutes another gap that this paper seek to fill. In the same vein, most non-financial quoted firms in Nigeria prefer to source for short-term debt such as overdraft and bank loans, due to their inability to source for long-term debt and then use same for long term investment

by rolling over such debt for years, thus turning short-term debt into long term debt; this has devastating effects on cost of capital of such firms, as interest on loans continue to rise. Another challenge that non-financial firms face is the choice of capital structure to employ. Fixed interest payment, whether or not the firm has the capacity to repay, is encountered with debt financing, while the challenge of ownership dilution is encountered with equity financing. There-fore, the two components that make up the capital structure of firm's capital have to be critically considered by managers at the helm of financial affairs in firms because using a wrong choice can lead the firms to insolvencies and liquidity issues (Abor, 2007).

2.0 Literature Review

2.1 Preamble

Section 2.2 discusses the concepts of the three variables, that is, the corporate governance, firm-specific factors and capital structure; section 2.3 reviews the literature by taking each variable and relating it with the dependent variable, capital structure, while section 2.4 discusses the overview of fundamental theories of firm-specific, corporate governance and capital structure, and presents a conceptual model to end this section.

2.2 Conceptual Literature

2.2.1 Corporate governance concepts

Corporate governance is a solution for agency problem, which is the consequence of the separation of ownership and control. Conflict of interests arises between managers, who are in control of the firm and shareholders who invest in the firm but they are unable to supervise its daily operations, leading to a situation where managers prioritize their benefits over those of the shareholders and misuse the firm's resources. The aim of corporate governance therefore, is to establish the means by which shareholders and other capital providers ensure that they can obtain returns for their investments and create the mechanisms that enable them to supervise managers.

In response to the persistent interest in sound CG concepts, the organization for Economic Cooperation and Development (OECD) introduced a set of standards and guidelines known as Principles of CG to assist policymakers in evaluating and improving the law system, rule and regulation system, and the institution system related to CG, thus promoting economic growth and sustainability of financial stability (OECD, 2015). The practice of corporate governance in firms has developed rapidly in recent times, and its significance has been highlighted around

the world as it underpins a company's operating framework. The adoption and usage of CG principles in firms benefit the owners, as it helps to effectively monitor the firm's activities, especially when the principles of disclosure and transparency are adopted (Grantham, 2020). It is pertinent to know that the concept of CG is framed within business ethics. Business ethics is the ethics applied to the organizational field, which refers to human quality, the excellence of people and their actions, within the framework of their work. Good business conduct practices are embodied in codes of ethics, which contemplate the values that are established in the system for the firm's benefit. With this in mind, CG can be defined as the system by which firms are directed and controlled. The objective of good governance codes is to protect shareholders from the power of managers and avoiding the agency problems existing between them.

The principle of CG among others include protection of the rights of shareholders and ensure equitable treatment for all of them; ensuring that all shareholders have effective compensation for damages, whenever their rights are violated; recognizing the rights of interested third parties and promoting active cooperation between all stakeholders in the creation of wealth, generation of jobs and achievement

of sustainable financial enterprises (OECD, 2015). The study conducted by Thakolwiroj and Sithipol-vanichgul (2021) involved the analysis of data obtained from 421 publicly traded companies in Thailand during the period spanning 2015 to 2017. Multiple regression analysis was employed to examine the correlation between board characteristics and capital structure. The study revealed that the total debt to assets was negatively impacted by independent directors, board size, and board meetings. The metric of total debt to assets is subject to positive influence from various factors, including but not limited to the size of the firm, its growth prospects, the degree of managerial ownership, and the grade of corporate governance.

Sani and Alifah (2021) conducted an analysis of 56 non-financial enterprises that were listed in Nigeria during the period of 2012 to 2018. The study aimed to examine the correlation between board independence and capital structure. The study employed a balanced panel data regression random effect approach to analyse the data, with the debt ratio serving as a proxy for capital structure. The study employed board size, business size, tangibility, and return on assets as control variables, and board independence and institutional ownership as independent variables. The findings indicated that institutional ownership serves as a

favourable moderator in the relationship between board independence and leverage.

2.2.2 Firm-specific factors and concepts

Each business organization has a uniqueness that differentiates management practice of one firm from another. Business organization theory posits that firm's behaviour is affected by internal and external factors (Jones, 2013). Internal factors are closely related to the firm's specific factors such as firm's size, firm's age, industry type, and resources such as: liquidity, profitability, asset tangibility and ownership; while the business environment is one of the external factors (Vecchiato, 2012). Firm-specific factors distinguish one firm from another in terms of its functions and operations. Different firms have different strengths and weaknesses that affect the choice of capital structure. A large firm is associated with superior resources compared to a small firm. Matured firms have more profitability, liquidity and assets accumulated over the years than young and upcoming firms. Skills may be firm-specific, if the equipment the firm operates with is unique to that firm. Firm-specific variables are tangibility, profitability, liquidity, firm size and market to book ratio and other variables that distinguish one firm from the other. The study conducted by Liou, Cecilio, and Felix (2016) involved the analysis of 77 non-financial Spanish

enterprises that were registered on the Madrid Stock Exchange within the period spanning from 2001 to 2014. The firm specific variables that were assessed included tangibility, scale, volatility, profitability, non-debt tax shield, expansion potential, and industry implications. The study revealed that leverage exhibited a noteworthy and unfavourable correlation with profitability, growth prospects, and volatility,

Atif (2021) inferred that Indian enterprises place significant reliance on financing options with a short-term horizon. Various factors such as profitability, firm size, liquidity, tax rates, and business hazards were the significant determinants of the capital structure of Indian enterprises.

Khaled and An-Nisha (2021) conducted a study in Asia using cross-sectional OLS regression analysis, the dependent variable of capital structure was approximated by utilizing the ratio of debts to total assets. Exogenous variables comprised factors such as a firm's profitability, magnitude, expansion, asset composition, and hazard. The findings indicated a significant and positive correlation between the capital structure of the company and profitability.

2.2.3 Capital structure concepts

Optimum capital structure: An Optimal capital structure is the mix of debt and equity financing that minimizes the weighted average cost of capital. and

enhances the value of the firm. The effort of financial manager in setting suitable targets and continuous adjustments of the targets for equity and debt mix is to achieve optimal capital structure. In order to maximize the intrinsic value of the firm, the weighted average cost of capital must be reduced to the lowest level. When this point is reached, the optimum capital structure is achieved. Optimum capital structure as defined by Parmasivan & Subramanian, (2009) is the capital structure level that assures the maximization of the shareholders' wealth as well as enhancing the value of the firm at the lowest weighted average cost of capital. The concepts and factors affecting capital structure include the firm's cost of capital, nature and size of the firm, capital markets condition, debt to equity ratio and ownership. These factors help to choose an optimum capital structure for a firm

2.3 Review of Literature on variables

Capital Structure is influenced by many corporate governance and firm specific factors that have demonstrable effects on the choices of firms' capital structure. Some of the variables are discussed below with a view to showing the prediction of various capital structure theories on them.

2.3.1 Board ownership and Capital Structure:

A group of people who represents the interests of a company's shareholders is

referred to as board of directors. The board also provides guidance and advice to the company's chief executive officer and executive team as well as general oversight of operations without getting involved in day-to-day operations. They are elected by shareholders in the case of public companies to set strategy and oversee management. Retaining or increasing managerial control is a major concern for managers, as it affords them the opportunity of accessing private benefits and making more decisions, hence, they prefer to issue more debts rather than equity in order to avoid dilution in shares arising from issuing new shares, thus, debt is a means of reinforcing managers control and resisting takeovers. Hence, board ownership is expected to have a positive relationship with capital structure in line with trade off theory. Firms with higher insider ownership have higher debts than those with outsider ownership. The positive board ownership–capital structure prediction finds empirical support from (Thakolwiroj & Sithipolvanichgul, 2021). Similarly, having high debt affords the managers with excess cash to undertake sub-optimum investments for their selfish interests. However, Salman, (2014) found a negative relationship between board ownership and capital structure in line with pecking order theory and concluded that

higher level of insider ownership can help companies to control their cost of capital.

2.3.2 Block Ownership and Capital Structure

Individuals' and institutions' abilities, skills and experiences in respect of monitoring and controlling the business activities of a firm and their management vary; however, institutional investments enhance the controlling process over management decisions and lead to improved financial decisions and performance (Al-Najjar, 2015). A block holder is the owner of a large block or substantial amount of a company's shares and/or bonds. These owners are often able to influence the company with the voting rights awarded with their holdings. Due to large number of shares held, block holders can influence the direction of a company through exercising their voting rights and threats to sell their shares, negatively impacting the price. Block ownership influence decisions regarding capital structure by controlling the conflicts arising between shareholders and managers, by ensuring that managers act in the best interest of the shareholders through proper monitoring of managers activities. Block ownership enhances the quality of corporate governance and increases the effectiveness and efficiency of managers by monitoring managers, which may determine the debt level.

2.3.3. Board Independence and Capital Structure

An independent, outside or non-executive director is a member of a board of directors who does not have a material relationship with the company or related persons, except sitting fees. The importance of board independence with the emergence of non-executive directors on the board of directors has been increasingly highlighted by regulators. The efficiency of the board monitoring function over managers is linked with the independence of the board (fama & Jensen, 1983).

The resource dependence theory and Agency theory strongly support the appointment of independent directors. Resource dependency theory affirms that independent directors are seen as valued source of external resources and information for firms (Hilman & Dalziel, 2003). They perceive risks and devise ways of safeguarding the firm against such risk (Ehikioya, 2009).

2.3.4 Liquidity and Capital Structure

An organization's liquidity denotes the capability of the organization to meet its short term debts and other obligations. Kimondo, Irungu, and Obanda (2016) argued that maintaining an optimal level of liquidity is crucial for maximising profitability, improving shareholder welfare, and enhancing organisational value. Bolek and Wolski, (2017) saw

liquidity as the capacity of an organization to meet its current liabilities, as measured by different financial ratios, Obim, Takon, and Mgbado (2020) examined the impact of liquidity on banks' profitability, using ordinary least square multiple regression technique, the result revealed a positive but insignificant relationship between bank deposit and return on asset, and a positive and insignificant relationship between treasury bills and return on asset. Similarly, Ajose and Balogun, (2021) examined the impact of management of liquidity on the financial performance of deposit money banks in Nigeria from the year 2011 to 2020, using ex-post facto research design. The result revealed that management of liquidity has a positive and significant effect on the financial performance of banks in Nigeria.

2.3.5 Profitability and Capital Structure

The concept of profit in business refers to the disparity between the revenue generated by a company from its products or services and the potential costs of the resources utilized in the production process. The calculation of profit involves subtracting the sum of explicit and implicit costs from total revenue. An increase in profitability results in a corresponding increase in internal funds generated from retained earnings, thereby reducing the relative proportion of debt within the capital structure. Pecking order theory predicts that

there should be a negative relationship between profitability and leverage, since the order have preference for internally generated form of finance over external funds. Profitability is related to availability of internal funds and may therefore be related to less leverage with respect to pecking order theory, Liouis et al., (2016) found that profitability is negatively and statistically significant with debt issues on the balance sheet.

2.3.6 Tangibility and Capital Structure

As a company ages, it accumulates fixed assets to use in its production processes; its creditors may look to the size of these assets as collateral in the event that the company goes into financial distress and the creditors are unable to recoup their initial investment (Erika, 2019). More tangible assets also alleviate conflicts between debt holders and shareholders, while creditors also have renewed guarantee of repayment, since tangible assets serves as collateral against inability to repay (Jensen & Meckling, 1976). Trade-off theory predicts and supports a positive relationship between tangibility and leverage. In the same vein, managers of highly geared firms are cautious of the danger involve in their inability to pay fixed interest to debt holders who are closely monitoring their activities, such managers are not able to consume

perquisites of office in excess, (Grossman & Hart, 1982). Pecking order theory however, predicts an inverse relationship between capital structure and asset tangibility. This may be due to low information asymmetry in respect of tangible assets, making cost of equity issuance lesser.

2.3.7 Debt tax shield and Capital Structure

The concept of tax shield effect pertains to various mechanisms or strategies that can mitigate the impact of corporate taxation, encompassing both debt tax shields and non-debt tax shields. The concept of tax shield pertains to the decrease in the amount of income tax that arises from the utilization of a permissible deduction from the taxable income. The prediction of the trade-off theory is a positive relationship between capital structure and effective rate of taxation, the higher the effective tax rate, the higher the benefits derived in form of debt interest tax shield. When the tax rate is high, firms issue more debts to take advantage of the increased interest tax shield as predicted by the trade-off theory and affirmed by Frank and Goyal (2009). If tax rate depletes internal funds, debts will be favoured in the pecking order theory. Akinyomi and Olagunju (2013) found a negative and insignificant relationship between capital structure and debt tax shield. Similarly, Choi (2014) found a

negative and significant relationship between capital structure and debt tax shield.

2.4 Theoretical Review

This paper is based on the following three theories

2.4.1 Pecking order Theory (Asymmetric information model)

The pecking order theory, originally introduced by Donaldson (1961) and later refined by Myers and Majluf (1984), describes the financing preferences of managers for their investment opportunities. This theory posits that managers prefer to finance their investments first through internal funds, such as retained earnings, and then through external financing sources, such as debt or equity. This preference arises from the concept of information asymmetry, where managers possess more and better information about the company than external stakeholders, leading to an imbalance in transaction power. To compensate for this, external stakeholders demand higher returns, making internal financing the cheapest and most convenient source of financing. When external financing is required, managers prefer debt over equity due to the lower cost of debt financing. Debt holders require a lower return as compared to shareholders, who require a higher return due to their lower claim to assets in the event of bankruptcy.

The issuance of debt signals confidence in the investment and may indicate an undervalued stock.

2.4.2 The Trade-off Theory

The theoretical construct referred to as "Trade-off theory" pertains to the tax-bankruptcy nexus of debt financing. The classical notion of trade-off as introduced by Kraus and Litzenberger (1973), entails a deliberation of the expenses associated with bankruptcy in comparison to the advantages of tax savings that arise from debt. The trade-off theory aims to explain how a company can achieve an ideal capital structure. The attainment of a harmonious equilibrium between the benefits arising from the tax shield and the expenses incurred as a result of financial distress is accomplished through the regulation of debt and equity levels.

3.0 Methodology

3.1 Research Design

The research design adopted in this study is deductive and quantitative approach, which is easy to explain based on data analysis results as well as easy to conclude. It is in line with the literature (Hussein & Al-Najjar, 2020). Characteristics of the data used for the study qualified it for a dynamic panel study. The longitudinal nature, that is fifteen year time period from year 2006 to year 2020, and the cross-sectional

2.4.3 Resource dependence theory

This theory was initially introduced by Pfeffer & Salancik, (1978), having its root from sociology theory of social network. The theory focuses on firms collaborating with other powerful external organizations to increase the flow of resources. In corporate governance, this theory focuses on the important roles of 'non-executive directors' in providing critical resources to the firm. This theory perceives board of directors as providers of diversified resources to the firm, called board capital (Hilman & Dalziel, 2003). Board capital, can be in the form of 'human capital, such as experience, expertise, reputation' and 'relational capital, such as networking other firms and external contingencies'.

attributes, that is fifty-eight firms, substantiates the usage of dynamic panel technique. This technique takes care of heterogeneity problems and therefore better than ordinary least square panel regression analysis, 4 estimator and many other techniques that give bias results due to heteroscedasticity problems..

3.2 Population of the Study

The population of the study consists of 123 non-financial quoted companies on the

Nigerian exchange group for the period covering the year 2006 to the year 2020.

3.2.1 The Sample Size

The sample size was determined using inclusion and exclusion approach. The principle of inclusion and exclusion (PIE) is a counting technique that computes the number of elements that satisfy at least one of several properties, while guaranteeing that elements satisfying more than one property are not counted twice. Companies that have continuous data for fifteen years from year 2006 to year 2020 only were included, while newly listed companies not having adequate data for 15 years and repeated names of some firms were excluded, only 58 firms that had all the relevant data for all the research variables due to continuous existence for fifteen years, constitute the sample for the study.

3.3 Data Collection Method

Model 1

$$LTDA_{it} = \beta_0 + \beta_1 LTDA_{it}(-1) + \beta_2 CUTR_{it} + \beta_3 ROET_{it} + \beta_4 ROA_{it} + \beta_5 TANG_{it} + \beta_6 NCAR_{it} + \beta_7 DTAX_{it} + \beta_8 MAOW_{it} + \beta_9 BLOW_{it} + \beta_{10} BODI_{it} + \varepsilon_{it} \dots\dots\dots 1$$

Where

LTDA = Long-term debt to Asset

Model 2

$$LTDE_{it} = \beta_0 + \beta_1 LTDE_{it}(-1) + \beta_2 CUTR_{it} + \beta_3 ROET_{it} + \beta_4 ROA_{it} + \beta_5 TANG_{it} + \beta_6 NCAR_{it} + \beta_7 DTAX_{it} + \beta_8 MAOW_{it} + \beta_9 BLOW_{it} + \beta_{10} BODI_{it} + \varepsilon_{it} \dots\dots\dots 2$$

Where

LTDE = Long-term debt to Equity, Dependent Variable

Secondary data (historical data) were collected in respect of dependent and independent variables from sampled companies' annual financial statements for the fifteen year period covering the year 2006 to the year 2020. Secondary data usage provides systematic, empirical and unambiguous answers to research questions, since such data were independently provided by statutory auditors in audited financial statements these reports are reliable, verifiable and less prone to research manipulation. Data for this study were obtained from the audited financial statements of each of the sampled companies as compiled by Machame Ratios @ database from official sources such as the Nigerian Exchange Group and Central Bank of Nigeria Statistical Bulletins for the year 2006 to the year 2020.

3.1 Model Specifications

The following models are specified.

Table 1: Variables of the study and their measurement

Variables	Measurement of Variables	Proxies		Sources
Long-Term debt to Asset	Long-term debt/total assets	LTDA	Dependent Variable	Akinyomi & olagunju, (2013)
Long-term debt to equity	Long-term debt/ sharehold equity	LTDE	DV	Determinants of capital Structure: Evidence from Kuwait
Board ownership	% of controlling sharehold owned by the by the manag who actively participate in corporate dec	MAOW	Independent	Hussain, S. (2020) The measurement of corporate Governance Mechanism and firm performance (researchgate.net)
Block Ownership	% of equity shares owned I outside Institutions (I.e Institutional investors' ownership at time t for firm I)	BLOW	Independent	Akbar, M., Ahmad, T., Hussain. S., and Hassan, S. (2020). Corporate Governance And Firm Performance in Pakistan: Dynamic panel estimation www.researchgate.net/publication
Board Independence	No of independent director Number of board members	BODI	Independent	Akbar, M., Ahmad, T., Hussain. S., and Hassan, S. (2020). Corporate Governance And Firm Performance in Pakistan: Dynamic panel estimation www.researchgate.net/publication
Liquidity	Current Ratio = Current Asset / Current Liab	CURR	Independent	Mueller, J. (2022). What Financial Liquidity Asset Classes, Pro & Cons,- Investopedia
Profitability	Return on Asset = Net Income / Total Assets Return on equity = Net Income/shareholders' e	RETA ROET	Independent Independent	Hargrave, M, (2022) Return on Assets (ROA): Formula and 'Good' ROA Defined- Investopedia Fernando, J. (2023). Return on Equity (ROE) Calculation and What it means- Investopedia, corporate finance-Financial ratios
Asset Tangibility Net Tangible Ass	Fixed assets/ Total assets Total Assets - intangible a total liabilities	TANG	Independent	Kenton, W. (2022) What is a tangible asset? Comparison to non-Tangible assets - Investopedia
Non-current asset	Original purchase cost of long term investments less depreciation	NCAR	Independent	Peterdy, K. (2020) WHAT ARE NON-CURRENT aSSETS? Corporatefinanceinstitute.com
Debt tax shield	Average debt x cost of deb x tax rate OR Value of tax - deductible expenses x tax rate	TANG	Independent	Kagan, J. (2023) Tax Shield: Definition, Formula for Calculation and Example -- Investopedia

Source: Author's computation

4: Results and Discussion of Findings

4.1 Multi-Collinearity Test using Variance Inflated Factor and Tolerance

Value: Multi-col linearity can be tested using the variance inflated factor and tolerance level. If the VIF was more than or equal to 10 and tolerance was lower than 0.10, then there is multi-collinearity in the

model. The VIF for this study ranges between 1.02 and 2.79 and the tolerance ranges between 0.3590 and 0.9842, while the mean value of the VIF was 1.42, which is less than 10 and the tolerance greater than 0.10, thereby indicating the absence of multi-collinearity.

Table 2: Variance Inflated factor and Tolerance Value

Variable	VIF	1/VIF
MAOW	1.21	0.8249
BLOW	1.21	0.8266
BODI	1.12	0.8956
CUTR	1.13	0.8842
RETA	1.38	0.7225
ROET	1.02	0.9842
TANG	2.79	0.3590
NCAR	2.77	0.3615
DTAX	1.21	0.8290
MEAN VIF	1.42	

4.2 Table 3: Results of Descriptive Analysis

VARIABLES	MEAN	MEDIAN	MAXIMUM	MINIMUM	STD. DEV	SKEWNESS	KURTOSIS
LTDA	11.413	9.533	64.046	-23.673	9.572	1.117	5.736
LTDE	28.632	22.481	100.000	-41.421	25.575	0.890	3.440
CUTR	1.439	1.214	19.251	0.232	1.084	9.838	157.037
ROET	14.327	12.098	92.390	-76.123	22.428	-0.045	6.205
ROA	5.912	4.874	42.036	-43.335	9.233	-0.467	7.849
TANG	35.996	33.825	98.000	0.101	20.158	0.272	2.291
NCAR	43.964	42.974	91.916	0.000	22.211	0.042	2.207
DTAX	2.670	2.081	13.910	0.000	2.653	1.374	5.002
MAOW	15.749	2.978	85.803	0.000	22.713	1.450	3.960
BLOW	52.915	57.000	91.000	5.000	20.582	-0.615	2.532
BODI	62.096	66.667	80.000	0.000	13.418	-1.293	5.370

Long term debt to asset (LTDA) revealed that the mean value of the sampled companies was 11.413. This is the average value of all the sampled firms which implies that non-financial firms in Nigeria source their funds from short-term debt and other sources,

probably due to difficulties in sourcing for long-term debt. The median value was 9.533, the maximum value was 64.046, implying that big firms with track records are able to source long-term debt; the minimum was a negative balance of -23.673 with a standard deviation

of 9.572 from the mean, the skewness is positive, with a long right tail. It has a positive kurtosis, peaked curve of 5.736 higher than 3 and therefore leptokurtic in nature.

The current ratio mean of 1.439 is greater than 1;1, implying that assets are more than liability; the non-financial companies can meet their obligations as at when due; the median of 1.214 is good indicating that the sample companies are not having liquidity challenges; and the variance between the maximum of 19.251 and minimum of 0.0232 which implies that some of the sample companies are big with adequate liquidity, while some are small with liquidity challenges. Profitability was measured by return on assets as well as return on equity. Return on assets revealed an average return of 5.912 per Naira, while return on equity revealed an average return of N14.327 for every one Naira. This implies that it will profit non-financial firms to invest on equity rather than long term loan. The high variance between the maximum profit of 92.390 and a loss of -76.123 led to standard deviation of 22.428 as revealed by return on equity; return on assets revealed a maximum profit of 42.036 and loss of -43.335 and standard deviation of 9.233. Asset structure was examined by tangibility and non-current assets, both proxies revealed substantial tangible and intangible assets for the big firms, while some small firms have as low as 0.101, with platykurtic kurtosis that is less

than 3. Board ownership revealed that the sampled firms have an average of fifteen managers turned board members, with some firms having eighty five and above managers turned board members, this is motivating, while some have no manager turned board member. Block ownership revealed an average of fifty-three institutional owners that possess the might to monitor the activities of managers in the best interest of the shareholders. Though have a negative skewness of -0.615, which implies a long left tail and almost a mesokurtic kurtosis. The average board independence is sixty-two independent directors, with some firms having about eighty independent directors; this is good for the shareholders and the firms in general.

Long term debt to equity (LTDE) revealed the mean value of the sampled companies was -28.632 while its median value was 22.481, implying that outside equity non-financial firms in Nigeria explore other sources to fund their viable investments.

4.3 Econometric Analysis

Model 1:

$$LTDA_{it} = \beta_0 + \beta_1 LTDA_{it}(-1) + \beta_2 CUTR_{it} + \beta_3 ROET_{it} + \beta_4 ROA_{it} + \beta_5 TANG_{it} + \beta_6 NCAR_{it} + \beta_7 DTAX_{it} + \beta_8 MAOW_{it} + \beta_9 BLOW_{it} + \beta_{10} BODI_{it} + \varepsilon_{it}$$

GMM Result

Dependent Variable: LTDA				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
LTDA(-1)	0.287	0.021	13.668	0.000
CUTR	4.994	0.425	11.748	0.000
ROET	0.000	0.000	10.904	0.000
ROA	-0.268	0.054	-4.921	0.000
TANG	-0.061	0.030	-2.015	0.044
NCAR	0.486	0.039	12.515	0.000
DTAX	1.160	0.125	9.311	0.000
MAOW	-0.163	0.058	-2.792	0.005
BLOW	-0.222	0.069	-3.203	0.001
BODI	0.032	0.039	0.828	0.408
Effects Specification				
Mean dependent var	0.269	S.D. dependent var		24.083
S.E. of regression	26.285	Sum squared residual		500209.800
J-statistic	42.476	Instrument rank		58.000
Prob(J-statistic)	0.621			

Source: Author's Computation Using EViews

LTDA (-1): This variable revealed the impact of the lagged value of LTDA on the current level of long-term debt. The coefficient, that is, significant and positive implies that the level of long-term debt in the previous period has a strong effect on the current level of long-term debt. This signifies that firms with a trend of high long-term debt are prone to long-term debt usage as a source of finance..

CUTR: Current ratio assesses a firm's capacity to fulfil its short-term commitments with its current assets. The significant and positive coefficient indicates that the firms

with higher current ratios tend to have higher levels of long-term debt. This suggests that firms use long-term debt to finance their short-term liquidity needs. This equally indicates that an increase in the ratio of working capital (Liquidity) of non-financial listed companies in Nigeria positively and significantly increases the capital structure of such companies. This is in agreement with the trade-off theory. This result agrees with prior empirical results which show that liquidity as a measure of firm specific factors is a major driver of capital structure (Atif, 2021; Cevheroglu-

Acar, 2018; Utami & Inanga, 2012). Most specifically, the results did not tally with previous findings of various researchers which reported that liquidity as a measure of firm specific factors has no significant impact on capital structure. (Abdullahi & Alifiah, 2020; Khaled & An-Nisha, 2021).

ROET: Return on equity measures a firm's profitability in relation to its equity. The coefficient that is significant and positive implies that profitable firms tend to have higher levels of long-term debt. This could indicate that long-term debt is used to finance profitable investments. **ROA:** Return on assets measures a firm's profitability in relation to its total assets. The negative and significant coefficient suggests that firms with higher return on asset tend to have lower levels of long-term debt. This could indicate that firms with higher profitability have less need for external financing in line with pecking order theory.

TANG: Asset tangibility measures the proportion of a firm's assets that are fixed or tangible. The negative and significant coefficient implies that firms with higher asset tangibility tend to have lower levels of long-term debt. This could indicate that firms with more tangible assets have less need for external financing as they can use their fixed assets as collateral for loans.

NCAR: Non-current assets measure a firm's investment in long-term assets such as property, plant, and equipment. The positive and significant coefficient suggests that firms with higher non-current assets tend to have higher levels of long-term debt. This could indicate that firms use long-term debt to finance their investments in fixed assets.

DTAX: The coefficient of DTAX is positive and significant at 1% level, indicating that debt tax shield has a positive effect on long-term debt. This finding is consistent with the traditional tax advantage theory of debt, which states that the tax benefits from debt increase the optimal debt level of a firm.

MAOW: The coefficient of MAOW is negative and significant at 1% level, suggesting that board ownership has a negative impact on long-term debt. This finding is consistent with agency theory, which suggests that managers with high ownership levels have less incentive to take on debt as they face greater downside risk.

BLOW: The coefficient of BLOW is negative and significant at 1% level, indicating that block ownership has a negative effect on long-term debt. This finding is consistent with resource dependency and agency theories, which suggest that large block holders may have the power to influence managerial decisions and limit the use of debt.

BODI: The coefficient of BODI is positive, but not statistically significant, at 10% level. This suggests that board independence does not have a significant impact on long-term debt. This finding is somewhat surprising as previous studies

have found that board independence is an important determinant of corporate debt policy. However, the lack of significance may be due to the sample size or other unobserved factors that affect the debt policy of firms.

Arellano-Bond Serial Correlation Test

Test order	m-Statistic	rho	SE(rho)	Prob.
AR(1)	-1.066	-218665.964	205144.977	0.287
AR(2)	-0.041	-10337.519	253137.496	0.967

Source: Author's Computations Using E view

Based on these results, there is no significant evidence of first-order serial correlation (AR(1)) in the data, since the p-value associated with the AR(1) test statistic is larger than the usual significance level of 0.05. However, there is also no significant evidence of second-order serial

correlation (AR(2)) in the data, as the p-value associated with the AR(2) test statistic is also larger than 0.05. Therefore, it can be concluded that there is no evidence of serial correlation in the panel data at either the first- or second-order.

Model 2

$$LTDE_{it} = \beta_0 + \beta_1 LTDE_{it}(-1) + \beta_2 CUTR_{it} + \beta_3 ROET_{it} + \beta_4 ROA_{it} + \beta_5 TANG_{it} + \beta_6 NCAR_{it} + \beta_7 DTAX_{it} + \beta_8 MAOW_{it} + \beta_9 BLOW_{it} + \beta_{10} BODI_{it} + \varepsilon_{it}$$

Dependent Variable: LTDE				
Method: Panel Generalized Method of Moments				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
LTDE(-1)	-0.013	0.000	-1569.760	0.000
CUTR	224.744	1.365	164.633	0.000
ROET	-2.034	0.001	-2545.772	0.000
ROA	6.407	0.148	43.210	0.000
TANG	10.928	0.085	128.815	0.000
NCAR	23.599	0.093	253.141	0.000
DTAX	-9.638	0.211	-45.714	0.000
MAOW	23.964	0.024	1014.276	0.000
BLOW	24.346	0.326	74.712	0.000
BODI	9.331	0.089	105.010	0.000
	Effects Specification			
Mean dependent var	-10.948	S.D. dependent var		8326.472
S.E. of regression	3517.892	Sum squared resid		8960000.000
J-statistic	43.689	Instrument rank		61.000
Prob(J-statistic)	0.688			

Source: Author's Computations Using Eview

LTDE (-1): This variable represents the lagged value of the dependent variable, LTDE. The negative coefficient suggests that a higher value of the LTDE ratio in the previous period is associated with a lower LTDE ratio in the current period. This finding implies that companies may adjust their long-term debt levels to maintain a desirable debt-to-equity ratio over time.

CUTR: The current ratio measures a company's ability to meet its short-term financial obligations. The positive coefficient suggests that higher current ratios are associated with higher LTDE ratios. This finding implies that companies with stronger liquidity positions may be more likely to rely on long-term debt to finance their operations. **ROET:** The return on equity, measures a company's profitability, that is, net income to share-holders equity. The negative coefficient suggests that higher profitability is associated with lower LTDE ratios. This finding implies that companies with higher profitability may be able to finance their operations with internally generated funds and may be less reliant on long-term debt. This result is consistent with previous research, including the study by Al-Malkawi et al. (2021). **ROA:** The return on asset measures a

company's profitability, that is, net income to total assets. The positive coefficient suggests that higher profitability from total assets is associated with higher LTDE ratios. This finding supports the previous finding that higher profitability generally increases the need for long-term debt financing in line with trade-off theory. Additionally, the positive associations between profitability measures (ROA) and LTDE ratio are consistent with prior research which suggests that profitable firms need to take advantage of tax shield by borrowing more to conserve their profits. (Ekreози, 2013). **TANG:** Asset tangibility measures the proportion of a company's assets that are fixed/tangible (e.g., property, plant, and equipment). The positive coefficient suggests that higher asset tangibility is associated with higher LTDE ratios. This finding implies that companies with more tangible assets may be more likely to rely on long-term debt financing, as these assets can serve as collateral for debt holders. This result is consistent with previous research including the study by Al-Malkawi et al. (2021), Chen et al., (2021), Khaled & An-nisha, (2021) Choi, (2014) among others.

Arellano-Bond Serial Correlation Test

Test order	m-Statistic	Prob.
AR(1)	-0.02	0.98
AR(2)	NA	NA

Source: Author's Computations Using E view

Based on these results, there is no significant evidence of first-order serial correlation (AR(1)) in the data, since the p-value associated with the AR(1) test statistic is larger than the usual significance level of 0.05. However, there is also no significant evidence of second-order serial correlation

Discussions of Findings

The descriptive statistic implies that non-financial firms made use of short-term finance and other sources more than equity and long-term debt, being more convenient source of finance as most of the sampled companies do not have liquidity challenges. Furthermore, the result indicates that it will profit non-financial firms to use equity as a source of finance to earn better returns on their investment. Managers are encouraged to become stakeholders, while blockholders are many on the board of non-financial firms to monitor the activities of managers and ensure they act in the best interest of the shareholders.

Summary of Findings

The study used panel generalized method of moments (GMM) estimation technique to investigate the impact of corporate governance and firm-specific factors on capital structure of publicly listed non-financial firms in Nigeria. The study found that all the corporate governance and firm-specific factors, except board independence

have significant impact on the firms' long term debt to asset. The lagged value of long-term debt (LTDA) and current ratio (CUTR) have positive effects on long-term debt, suggesting that firms with a history of high long-term debt and those that use long-term debt to finance their short-term liquidity needs, are more likely to have higher long-term debt levels. Return on equity (ROET) has a positive effect on long-term debt, indicating that profitable firms tend to use long-term debt to finance profitable investments. However, return on Asset (ROA) and asset tangibility (TANG) have negative effects on long-term debt, implying that firms with higher profitability and more tangible assets have less need for external financing. Non-current assets (NCAR) have a positive effect on long-term debt, indicating that firms use long-term debt to finance their investments in fixed assets. Debt tax shield (DTAX) has a positive effect on long-term debt, consistent with the traditional tax advantage theory of debt. Board ownership (MAOW) and block ownership (BLOW) have negative effects on long-term debt, suggesting that managers with high ownership levels and large block holders may limit the use of debt. Board independence (BODI) does not have a significant impact on long-term debt. The GMM results further suggested that all the corporate governance and firm-specific factors are associated with a

company's long-term debt-to-equity ratio (LTDE). Specifically, companies may adjust their long-term debt levels to maintain a desirable debt-to-equity ratio over time. Higher current ratios are associated with lower LTDE ratios, suggesting that companies with stronger liquidity positions may be less likely to rely on long-term debt to finance their operations. Higher profitability (return on equity) is associated with lower LTDE ratios, suggesting that companies with higher profitability may be less reliant on long-term debt. Higher profitability (return on asset) is positively related to long term debt to equity. Asset tangibility and non-current assets are positively associated with LTDE ratios, implying that companies with more tangible and non-current assets may be more likely to rely on long-term debt financing. The debt tax shield has a negative association with LTDE ratios, suggesting that the tax benefits of debt financing may not be significant enough to offset the costs associated with higher levels of long-term debt. Board ownership and block ownership are positively associated with LTDE ratios, implying that board members and large shareholders may have a preference for long-term debt financing. Board independence has a positive association with LTDE ratios, indicating that firms with a higher proportion of independent directors on the

board tend to have higher long-term debt to equity ratios.

Conclusion

These results suggest that firms tend to adjust their debt levels towards their target levels, which is consistent with the trade-off theory. The study also confirms the pecking order theory, which suggests that companies prefer to use internal financing sources before resorting to external financing sources such as debt and equity. Additionally, the study found that firms with higher liquidity and profitability tend to have lower debt levels, while those with more tangible assets, higher non-current assets, higher tax shields, higher board ownership, lower board independence, and larger size tend to have higher debt levels. It is worth noting that this study employs a robust methodology and a large sample size of firms across multiple industries. The use of generalized method of moment technique allows for the control of unobserved heterogeneity and potential endogeneity issues, increases the reliability of the results.

The findings are consistent with the existing literature on the determinants of debt levels, providing further evidence to support the theoretical frameworks of pecking order theory, debt conservatism, and trade-off theory. The consistency of these findings across various studies and

contexts further reinforces their robustness and validity. It is important to note that the study highlights the importance of different firm specific factors in shaping debt levels, including liquidity, profitability, asset tangibility, non-current assets, and debt tax shield, as well as corporate governance factors such as board ownership, block ownership, and board independence. These findings provide useful insights for firms, investors, and policymakers to better understand the factors that influence debt levels and inform their decision-making processes.

Recommendations

Based on the findings, the following recommendations are made.

(I) Companies should consider their past debt levels when setting current debt targets to ensure they are achieving an optimal balance between tax benefits and costs of financial distress.

ii Companies should monitor their liquidity levels to ensure they maintain a healthy balance between liquidity and debt.

iii Companies should strive to maintain a high level of profitability to reduce their debt burden.

iv Companies should consider asset tangibility when making financing decisions to ensure they are balancing their need for financing with the associated risks.

v Companies should pay attention to non-current assets and tax shields when making financing decisions to ensure they are achieving an optimal balance between tax benefits and financial distress costs.

vi Companies should ensure they have a balanced board structure that takes into account the potential risks and benefits of debt.

vii Firms should embrace a well-established corporate governance factors that enable easy access to fund at lower cost, such as block ownership that attracts resources, connections and other benefits to the firm.

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