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Capital Market, Private Sector Financing And Performance In Nigeria: A Case Of Selected Companies

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Abstract:
This study examines the impact of capital market on private sector financing and performance in Nigeria over the period of ten years (2002-2011). The capital market provides long term funds for private sector through equities and debt. Three quoted companies were selected on a cross sectional basis for 10 years. The panel model regression analysis was adopted to analyze the secondary data sourced from the financial statements of the selected companies, Nigeria Stock Exchange Fact book and the Nigeria Securities and Exchange Commission Reports. The results show that capital market positively impacts the private sector performance through equities with an estimate coefficient of 0.082107 while debt gives negative coefficient of -0.0339574 which implies that debt does not impact private sector. The coefficient of Multiple Determinations (R^2) gives 0.0934016(93.4%) with an adjusted (R^2) of 0.920269(92%) which means that the explanatory variables (Equities, Debt and Retained Earnings) account for 92% behavior of the dependent variable. Based on the findings, the study recommends that for the Nigeria capital market to be a vital force in the private sectorfinancingthere is need for measures to increase the capacity of the Nigerian capital market to be able to finance private sectors investment adequately. Also, debt for borrow funds to be beneficial, it must be efficiently used while more investments opportunities like derivatives and convertibles should be encourage in the market to enhance diversification in the financial structure of firms.

Keywords: *Capital market, Private sector, Performance, Equity, Debt, Diversification.*

1.Introduction

The capital market is a market through which large amount of funds are raised by firms or corporations, governments and other organizations for long term use and the subsequent trade of the instruments issued in recognition of such capital. It is a market for trading in long-term financial instruments of different sources. Globally, capital market are primarily created to provide avenues for effective mobilization of idle funds from scatter surplus economic units and channeled into deficit units for long term investment purpose. The suppliers of funds are basically individuals and corporate bodies as government rarely supply funds to the market. The deficit units on the other hand consist only of corporate bodies as government. In other words, individuals (households) who are major suppliers of funds to the market are absent in the category of fund users. This is because conventionally, individuals cannot access the capital market for funds.

Private sector in Nigeria makes use of this opportunity both new and existing companies to raise funds from this market. Before a company can have access to raise money through this market, such company must have been listed on the floor of the market, and fulfilled some requirements placed by the regulatory body Securities and Exchange Commission (SEC). The Nigerian capital market is categorized into primary and security markets. New securities are issued in the primary market and companies issuing these securities receive the proceeds from sale. The secondary market provides forum for sale of securities by one investor to another investor. In the light of this, private companies listed on the Nigeria Stock Exchange (NSE) go public to source funds when the firms are unable to raise funds internally.

There is abundant evidence that most Nigerian business outfits lack long term capital. The business sector has dependent mainly on short term financing such as overdraft to finance even long term capital. However, this type of financing is risky and not adequate, instead of raising an appropriate mix of short and long term capital.It is now increasingly being recognized that the growth process of Nigeria economy depends to considerably extent on the development of the private sector and as such their financing deserves attention. However, Nigeria capital market which is supposed to be an avenue for sourcing long term funds to finance long term projects is not as developed as her foreign counterpart in term of funds mobilization and liquidity.

In the light of the foregoing, this research will evaluate the impact of Nigeria capital market on private sector in Nigeria to elucidate on this fact.

2.Literature And Empirical Review

Capital market provides for buying and selling of long term debt or equity backed securities (Abdulahi,2005).The capital market can affect economic development through the mobilization of long term resources, the provision of liquidity, risk diversification, privatization, securitization, or risk transfers and determination of the cost of capital for project evaluation (Chiwuba and Amos, 2011).Osannwonyi, (2005) sees capital market as an exchange system set up to deal on long term credit instrument of high quality. The dealing in this high quality instrument facilitates the execution of some desirable and profitable project bearing direct relationship with economic development.Ariyo and Adelegan (2005) contend that, the liberalization of capital market contributes to the growth of the Nigeria capital market, yet its impact at the macro-economy is quite negligible.Okereke-Onyuike (2000) posits that the cheap source of funds from the capital remain a critical element in sustainable development of the economy. She enumerated the advantages of capital market financing to include no short repayment period as funds are held for medium and long term period or in perpetuity, funds to state and local government construct pressures and ample time to repay loans.

The capital market has been identified as an institution that contributes to the socio-economic growth and development of emerging and developed countries economies. This is made possible through it vital role in intermediation process in economies. Osaze (2000) seesthe capital market as the driver essential for the long term growth capital formation. The Nigeria capital market provides the necessary lubricant that keeps turning this wheel of the economy. It is not only providing the funds to projects of best returns to fund owners. This allocation function is critical in determining the overall growth of the economy.In another exposition, Gabriel (2002) as enunciated by Nyong (2003) long emphasis on the Romanian capital market and conclude that the market is inefficient and hence it has not contributed to economic growth in Romanian.

Ekundayo (2002) argues that a nation requires a lot of local and foreign investments to attain sustainable economic growth and development. The capital market provides a means through which this is made possible.Pedro and Erwan (2004) asset that financial market development raises output by increasing the capital used in production and by ensuring that capital is put into best uses.Backaert et al (2005) analyze that capital market development would lead to financial liberalization, which will lead to a 1% increase in annual real economic growth.Flavia and Petru, (2010) contend that capital market has not reached a level of development that would enable it to fulfill its main function in the economy.Ezeoha, et al (2009) investigated the nature of the relationship that exists between stock market development and the level of investment (domestic private investment and foreign private investment) flows in Nigeria. The study discovered that stock market development promotes domestic private investment flows, this suggest the enhancement of the economy's production capacity as well promotion of the growth of national output. However, the results show that stock development has not been able to encourage the flow of foreign private investment in Nigeria.

Ewah, et al (2009) appraised the impact of the Nigeria capital market efficiency on the economic growth of the nation using time series data from 1962 to 2004. They found that the capital market in Nigeria has potential of growth inducing but it has not contributed meaningfully to the economic growth of Nigeria because of low market capitalization, illiquidity, misappropriation of funds among others.Nieuwerburgh, et al (2005) investigated the long term relationship between capital (stock) market development and economic growth in Belgium. Their result shows that the market causes economic growth in Belgium.Adamu and Sanni, (2005) examine the roles of stock market on Nigeria's economic growth using Granger Causality test and regression analysis. The authors discovered a one way causality between GDP growth and market capitalization and a two way causality between GDP growth and market turnover. They also observe a positive and significant relationship between GDP growth turnover ratios. The authors advised that government should encourage the development of the capital market since it has a positive effect on economic growth.

Afeez and Kazeem (2010) critically and empirically examined the causal linkage between stock market and economic growth in Nigeria between 1970 and 2004 and the result showed that capital market development drive economic growth.Amaghionyeodiwe (2003) also examine the relationship between Nigeria stock market and economic growth during the period of 1980 to 2000 using ordinary least squares regression (OLS). The result showed that there is a positive relationship between the stock market development and economic growth and suggest the pursuit of policies geared towards rapid development of the stock market.According to Mishra, et al (2010) they examine the impact of capital market efficiency on economic growth of India using the time series data on market capitalization, total market turnover and stock price index over the period spanning from the first quarter of 1991 to the first quarter of 2010. Their study reveals that there is a linkage between capital market efficiency and economic growth in India. This linkage is established through high rate of market capitalization and total market turnover. The large size of capital market as measured of greater market capitalization is positively correlated with the ability to mobilize capital and diversify risk on an economy wide basis. In relation to Nigeria capital market, it has been evident that the market capitalization is increasing for the past few years and it would certainly bring capital market efficiency and thereby contribute to the economic growth of the country.

3.Methodology

The study uses panel data regression model in the analysis. The techniques of panel data estimation takes care of the problem of heterogeneity in the three companies selected for the study. Annual series data from 2002-2011 were sourced from the financial statement of the selected companies and the Nigerian Security and Exchange Commission Fact Books.

3.1.Model Specification

The model adopted for this study is underpinned to the model of Demirgue-Kurl and Levins, (1996) in their study “linkage between stock market and economic growth” which measured gross domestic product (GDP) as a function of government development stock (GDS), Interest rate (ITR), Market Capitalization (MC). Broad Money Supply M_2 and Total Market Transaction (TMT). However, the model will be modified to be suitable in achieving the objectives of this study.The model for this study can be functionally represented as:

$Y = f(x_1, x_2, x_3)$------------------------------------- (1)

Y is the dependent variable

x_1, x_2, x_3 are independent variables

This can be specifically stated as,

PERF = f(Equities, Debt, Ret. Earnings)-----------------------------(2)

PERF = α + β_1Equities + β_2Debt + β_3Ret. Earning + U---------------- (3)

Where;

PERT = Performance of the selected companies (profitability index)

Equities= Equities of the firms

Debt = Shareholders Fund (debt)

Ret. Earnings = Retained Earnings

α = Regression constant

U = Stochastic error.

The 'a prior' expectation in the model is that all the independent variables are expected to have a positive relationship on performance measured by profit after tax (PAT). The mathematical expression is represented as β_1, β_2, and $\beta_3 > 0$ implying a unit increase in the independent variables will lead to decrease in performance by a unit.

4.Data Analysis And Findings

The data for this study are analyzed using the panel regression analysis of the ordinary least square to test the relationships existing between the dependent variable and independent variables under the fixed effect.The dependent variable was proxied as Performance (PERF) while the independent variables are proxied as EQUITY,DEBT and RETAINED EARNING. This chapter basically deals with the presentation of data which are secondary in nature, analysis and the interpretation of results. The table below shows the regression of the ordinary least square results conducted on the specified model. The OLS results reveal the relationship that exists between the dependent variable and each of the independent variable.

Variable	Coefficients	Standard Error	Probability
C	-915081.7	149622.7	0.0000
EQUTY	0.082107	0.016947	0.0001
DEBT	-0.033957	0.034605	0.3363
RETAINED EARNING	0.190444	0.047589	0.0005

Table 1: Summary of Result

R^2 = 0.934016 Adj R^2 = 0.920269 F-STAT = 67.94484 DW-STAT = 2.441985

Source: Author's Computation

From the Table 1, the relationship between the dependent variable (PERF) and the independent variables (EQUITY, DEBT and RETAINED EARNING) can be deduced can be expressed mathematically as:$PERF=-915081.7+0.082107_{\mathbf{EQUiTY}}-0.0339574_{\mathbf{DEBT}}+0.190444_{\mathbf{RET.EARN}}+\mu$

From the above result, the constant parameter is negative, showing that if all Independent variables are held constant, the dependent variable (PERF) will decrease by915081.7units.The coefficient of EQUITY is positively related to PERF with an estimate of 0.082107. This implies that an increase in the level of equity of a firm (EQUITY) will lead to an increase in PERF by 0.082107units.Meanwhile, the coefficient of DEBT shows a negative figure of -0.0339574 meaning that an increase in the level of the Debt financing (DEBT) will lead to0.0339574unit decrease in the demand for money (PERF).

RETAINED EARNINGS also showed a positive relationship with performance (PERF) with a coefficient of 0.190444. This means that an increase in the RETAINED EARNING will lead to increase in the performance (PERF) by 0.190444units. Nevertheless, the individual effect of each cross-section shows that the behaviour of it constant parameter isn't the same. The constant parameter of Total PLCshows a positive constant parameter which indicates that if all exogenous variables are held constant; the performance variable (PERF) of Total will increase by1417567. While that of UAC and EVANS gave a different scenario. The cross section specific of UAC shows a constant parameter of -255571.4, implying that the holding of all explanatory variable constant for UAC shows that if performance level will drop by 255571.4. The constant coefficient of EVANS also gave the same indication of negativity. It cross-section specific gave a negative value of -1161995, implying that if all exogenous variables are held constant, the performance level of EVANS will also decrease by 1161995.

The coefficient of multiple determinations (R^2) as given in the result of the panel regression of the ordinary least square of e-view 6.1 is given as 0.934016which implies 93.4% with an adjusted R^2 of 0.920269 which implies 92%. This explains that the explanatory variables (EQUTY, DEBT and RETAINED EARNINGS) accounted for 92% behaviour of the dependent variable (PERF), while the remaining 8% is accounted for by the stochastic variable.

4.1.Tests For The Significance Of Parameters (T-Test)

The t-test results showing in table 4.2 below is done to test the significance of each if the explanatory variables using the student t-distribution test. It is carried out on a two tail test and by comparing the T-Cal and the T-tab.

Variables	T-calculated	T-tabulated	H_0	H_1	Remark
C	6.115928	1.706	Reject	Accept	Significant
EQUTY	4.845000	1.706	Accept	Reject	Significant
DEBT	-0.981266	1.706	Accept	Reject	Insignificant
RETAINED EARNING	4.001830	1.706	Accept	Reject	Significant

Table 2

From the above table, it can be deduced that the all parameters except for the debt level (DEBT) are found to be statistically significant with their individual t-calculated showing a value above the tabulated figure of "t" while DEBT was found to be statistically insignificant. The F-statistic which shows the over test of significance revealed that the model is significance in explaining the variations in PERF. Also, the Durbin-Watson test shows that the statistical presence of autocorrelation in the model is inconclusive.

5.Summary And Implications Of Findings

The study found that the Equity financing (EQUTY) and Retained earnings (RETAINED) is positively related to the performance (PERF) level of a firm while Debt financing shows a negative relationship with performance (PERF) of these firms.Meanwhile, the specific effect of cross sections shows a different ball game with only the constant parameter of TOTAL showing a positive and increase in the absence of no explanatory variables while the situation of the remaining two companies (UAC and EVANS) gave the opposite, meaning that the holding of all the explanatory variable constant will result into a decrease in their performance (PERF) level. All variable except the debt financing (DEBT) shows statistical significance with their respective t-calculated showing a greater value compare to the t-tabulated

The coefficient of multiple determinants (R^2) shows the goodness of fit of the model with an estimated 0.920269 which indicates that 92% of the behaviour of the PERF of the sampled firms can be explained by their individual financing method. While the error term account for the remaining 8% behaviour of PERF. The positive relationship that exists between equity and performance variable (PERF) is in consonance with the prior expectation earlier set in this study. Although, the coefficient of debt financing show a negative coefficient going against the prior expectation of this study and implying that an increase in debt level in the financing structure of a firm will have a negative effect on the performance level of firms, nevertheless, it does not still mean that debt financing is not a good financing technique, only it requires efficient use. More also in the use of debt financing, the financing structure of firms requires adequate appraisal, to determine in actual sense the best period to adopt it use. The behaviour of retained earnings (RETAINED) was in conformity with the prior expectation has it shows that an increase in the level of earning retained will result into increase in the level of performance. The implication of this is that if a firm adopts toretain its earning, it saves itself the stress and the extra charge of having to source fund externally, thereby reducing or even total eradicating unnecessary cost of borrowing.

These findings agree with Ezeoha, et al (2009), which investigates the nature of the stock market development and the level of investment (domestic private investment and foreign investment) flows in Nigeria. They discovered that stock market development promotes domestic private investment flows, thus suggesting the enhancement of the economy's production capacity as well as promotion of the growth of national output. It also conform with Afeez and Kazeem (2010), Amaghionyeodiwe (2003) and Nieuwerburgh, et al (2005), who found that capital market had a positive impact on economic growth and development of Nigeria.

6.Conclusion

The study reveals that the capital market impact on private sector performance via equity and retained earnings (returns). As it was observed that for debt to contribute to the performance of the sector, firms are to effectively utilized and managed it. Hence, the capital market remains one of the mainstreams in every economy that has the power to influence or impact private sector performance, hence more organized private sectors in Nigeria are encourage to be enlisted in the capital market. Effort should be made to increase the capacity of the capital market in order tomake attractive and have sufficient capital that can take care of both local and foreign investors.

7.Recommendations

The study recommends the following points**:**

- Necessary reforms that will improve the quality of service render by the Nigerian capital market should be put in place by the regulatory authorities.
- The capacity of the Nigerian capital market should be enlarge in order to have adequate capital that can encourage economic growth
- As this study reveals that debt has negative impact on the performance of firms, there is need for availability of more investment instruments such as derivatives, convertibles, and future and swaps options to give room for diversification in the financial structure of firms.
- There should be a review downward on the cost of raising funds in the market, so to enhance its competitive and improve attractiveness to the market.
- Rules governing the listing of securities should be further relaxed, thereby creating an environment adequate for investment opportunity. All laws which hide market entry by foreign investors should be reviewed.

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