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Gearing and Performance of Selected Listed Companies in Nigeria

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Abstract:

Corporate performance is one of the most discussed issues as this appears to be pivotal to the existence of any concern. The study investigated gearing (debt and equity) as a driver of the performance of selected listed companies on the Nigerian Stock Exchange (NSE). The going concern convention of most companies is threatened by their continuous need to perform in profit and wealth maximization of those organizations. This study adopted ex-post facto research design. The population comprised 170 listed companies on Nigerian Stock Exchange (NSE) as at December 2018. The study revealed that gearing have significant effect on performance of selected companies in Nigeria ($\text{Adj. } R^2=0.180$, $F_{(28, 170)}=0.111$, $P<0.05$). The study also revealed that debt ownership had positive and significant effect on Return on capital employed ($R^2=0.19$, $\beta_1=27.75$, $t_{(124)}=3.628$, $P<0.05$). Equity ownership had positive significant effect on the dividend growth ($R^2=52.7\%$, $\beta_1=23.61$, $t_{(124)}=2.638$, $P<0.05$). The study concluded that gearing affected performance of selected listed companies in Nigeria. The study therefore recommended that government should make a policy that will encourage a balanced gearing structure of listed companies that will enhance performance that will engender confidence.

Keywords: Corporate performance, debt, equity, going concern

1. Introduction

Gearing represents the amount of long-term debt used to finance a company's assets as distinct from shareholder's equity (Glautier, underdown and Morris, 2016). Jeleel and Olayiwola (2017) while describing gearing stressed that the providers of capital will have claim on the net cash flows of the business after paying the compulsory tax dues while the balance is retained for business operations. Gearing became prominent when the need for the growth and expansion of business concerns came to the front burner and therefore the need to employ the debt/equity financing as a way of oxygenating the financial capacity of concerns became profound.

According to Oke and Afolabi (2011) gearing is referred to as the proportion of debt financing and equity financing that a firm employ in its capital structure. They measured gearing using debenture and ordinary share value of selected firms in Nigeria. They further stressed that if firm is wholly equity financed all the after-tax operating cash flow in each period accrues as a benefit to its shareholder in form of dividend and retained earnings. On the other hand, if the firm borrowed portion of its capital, a proportion of its cash flow must be dedicated to servicing this debt element. Firm's choice of source of funds therefore determines the allocation of its operating cash flow in each period between debt and shareholders. The overall significant of the firm choice of capital structure is esoteric. It relates to splitting finance into debt and equity elements with each of these having its peculiar features, merits and demerits on firm sustainability and market value.

Gearing which is also referred to as leverage is some climes is the proportion of debt to equity that a business or organization adopts as a nomenclature for their capital structure. Olowe (2016) views gearing as the use of fixed interest sources of long term funds in the capital structure of a company. He further stressed that the fixed interest sources of long term funds consist of long term debt and preference share capital. A highly levered firm is one in which the debt to equity ratio is humongous while for an unlevered firm the debt to equity ratio is infinitesimal. According to Hong (1981), gearing is often subjected to a debate that as the ratio of debt to ordinary share capital increases, the risk of inability to meet debt obligations increases. His measure of gearing was debt/equity value of selected companies at Singapore. The corollary is that the market value of the debt drops and the cost of debt increases; the risk of return to ordinary shareholders also increases yielding an increase in the expected rate of return of equity capital.

Akintoye (2016) opined on debt holder versus equity holder that the equity of a firm can be viewed as a call option on the firm's total value, the value being the associated or underlying asset of the option. He elongated extensively

that the writers of the option are the debt holders. It was further buttressed on the premise that if debt is represented by discount bonds that pay only at maturity, stock holders can be viewed as having sold the firm to the debt holders with an option to buy it back at a specified price. Although a highly geared firm may be advantageous to ordinary shareholders if the cost of fixed interest capital is lower than the expected rate of earnings on the total capital employed and if profits are expected to increase (Akinsulire, 2015). Furthermore some authors stressed that an increase in the debt-equity ratio increases the value of the firm so long as the firm does not increase its leverage to an extreme point, while others maintain that in a perfect market the debt-equity ratio has no effect on the firm value (Hong, 1981). According to Alawode & Al sadek (2008), the definition of financial stability will be more meaningful by the attempt to define financial instability. At this juncture it is ideal we acquaint ourselves with the performance of a financial statement and so according to Salawu (2017) the income and expense elements of performance are measured in terms of assets and liabilities. Income is measured by increases in assets or decreases in liabilities, other than those relating to contributions from equity participants. Expenses, on the other hand, are measured by increases in liabilities or decreases in assets.

Many firms exist with set objectives that should be tailored towards taking them to a lofty and enviable feat (Adekola, 2016). Many of these concerns undertake one business or the other for its sustenance and continued existence. Business could be viewed as any venture that is engaged in so as to satisfy defined goals and objectives. Stephenson (2011) defined business as the regular production or purchase and sale of goods undertaken with an objective of earning profit and acquiring wealth through the satisfaction of human wants. But Dicksee (2011) is of the view that business refers to a form of activity conducted with an objective of earning profits for the benefit of those on whose behalf the activity is conducted and Henry (2011) defines business as, Human activity directed towards producing or acquiring wealth through buying and selling of goods. Thus, the term business means continuous production and distribution of goods and services with the aim of earning profits under uncertain market conditions.

Some of the objectives of businesses or organizations are endogenous, while some others are exogenous (Adekola, 2016). The endogenous objectives which are meant to be internally geared value added includes profit maximization, shareholders wealth maximization, growth and expansion, welfare of workers and customers while exogenous objectives are the externally geared value added and includes corporate social responsibility, scholarship awards, bursary awards etc. to mention but a few (Adekola, 2016). Many businesses set up are always capital intensive which requires that availability of funds are essential to a fruitful execution, many organizations cannot depend on personal savings or a ploughed back profit as such may be compelled to explore other sources of financing in form of borrowing that places gearing as one of the most prominent (Adekola, 2016).

2. Statement of the Problem

The problem or conflict between equity and debt holders may affect a firm's decision in three dimensions (Kuben 2008). These include investment, financing strategy and dividend distribution. Debt holders may restrict manager's investment on very risky projects even though they may bring high returns (Kalcheva and Lins, 2007). As soon as the amount of debt increases, debt holders will be more powerful and their interferences in firm's investment decisions will increase correspondingly (Margaritis and Psillaki, 2007).

For a highly levered firm the proportion of debt to equity is high to an extent of having the organization being wired around the debt that any pressure by the fund owners to withdraw such fund might have a debilitating effect on the going concern principle of such firm. Also unlike the shareholders whose dividend payment rest purely on the profit earnings of the firm, the debt service cost is independent of the profit earnings by the firm as such a highly levered concern exhibit a high degree of financial risk both to the organization and creditors (accounts payable). This is because a highly geared company that is unable to settle its debt as they fall due might be condemned to liquidation as such making it hard for creditors to recover their monies in full. An unlevered firm on the other hand suggests a low ratio of debt to equity but the organization in its entirety is not totally wired around the debt fund notwithstanding the fact that the debt fund remains a significant factor in the pursuance of the goals and objectives of the business. The degree of financial risk is not as high as the former. In the two scenarios aforementioned we cannot rule out the possibility of the cost of debt being increased from time to time and the tendency of the fund providers of incessant demand for upward review of return on their investment. We cannot also rule out the possibility of threats ensuing from these providers of debt funds to withdraw their funds to other sectors that might be ready to pay better. The statement of the problem from the concern itself centres on the foreseeable default in meeting the terms and conditions of the debt fund to grow dividend. This will be addressed by one of our objectives.

3. Objective of the Study

The main objective is to evaluate the effect of gearing on the financial stability of selected listed companies in Nigeria with bearable and manageable encumbrances tailored towards the realization of the goals and objectives of the business.

The specific objectives are as follows:

- To evaluate the effect of debt on Return on Capital Employed (ROCE) of selected listed companies in Nigeria
- The investigate the impact of equity on dividend growth of selected listed companies in Nigeria
- The moderating effect of age and size on the relationship gearing and performance of selected listed companies in Nigeria.

4. Hypotheses of the Study

- H_01 : Debt does not have effect on ROCE of selected listed companies in Nigeria
- H_02 : There is no positive relationship between equity and dividend growth of selected Listed Companies in Nigeria
- H_03 : There is no moderating effect of age and size on the relationship between gearing and performance

5. Literature Review

This section explored relevant literatures as it pertains to our study of gearing and financial stability of selected companies on the Nigerian Stock Exchange. The section engendered a holistic and robust navigation of existing work as it pertains to our work in a bid to unravel existing gaps or lacuna with a view to filling them. This aspect encapsulates three main divisions which are conceptual review, theoretical review and empirical review. The conceptual review described the key variables from the opinions of various authors. The theoretical review was an adoption of two relevant theories to our work while the empirical review was a voyage into the previous works of other authors and researchers.

6. Conceptual Review

6.1. Gearing

Scapens (1983) in his study 'The gearing adjustment: An economic profit perspective' asserts that the intention of the gearing adjustment is to indicate the cost or benefit to shareholders in terms of financing a proportion of net assets through borrowing. The Guidance Notes accompanying SSAP 16 describes the rationale for this adjustment as follows: 'Where such borrowing is fixed in monetary amount, any liability to repay remains unaltered, even when price changes affect the operating assets of the business financed by it i.e. If prices rise, the value to the business of assets exceeds the borrowing that has financed them. Although the International Financial Reporting Standards (IFRS) is an update of SSAP 16. Scapens (2013) in latter study established that the economic model used in earlier papers implicitly assumed that all operating assets were financed by equity, but in practice many companies use a combination of debt and equity finance. He posits that a simple modification of the economic model will engender the possibility of using debt finance and that in order to concentrate on the gearing adjustment, other complexities will be avoided. The business is assumed to produce a single output, Q , utilizing only labour L , and capital assets, K . The relevant prices are, p , w and q respectively. The price of capital assets is the same for both acquisitions and disposals, and no adjustment expense was incurred.

According to Jeleel and Olayiwola (2017), gearing which is also called leverage is the proportion of debt to equity that an organization utilized in running the affairs of the business. As the goals, objectives and aspirations of organizations increases, responsibilities would no doubt skyrocket thereby imposing copious pressure on the resource bank of such concern. Gearing is one of the requisite tool that comprise the capital structure of some entity that is used in engendering financial stability which is a one of the formidable paraphernalia that dictate the going concern concept of organizations. Financial stability is very crucial to the solvency position of firms because businesses are in operation to fulfill its goals and objectives and in doing this there are both short term and long term commitment that must be ascertained so that daunting threats and challenges to the existence of the organization are reduced to a bare minimum (Afolabi, 2011)

The economists are of the assertion that wants are unlimited but that the resources to satisfy them are limited, it is this limited resources that normally compel policy makers and drivers of organizations to seek alternative source of raising fund for the growth and development of the business. Gearing is perceived to be one of the virile avenue of actualizing the lofty dreams and visions of ensuring financial stability in all ramification (Afolabi, 2011). Most organizations always have goals and objectives that are meant to move it to the next level of development and the solvency state is instrumental in the pursuance of those goals. The debt / equity ratio as a capital structure is a gargantuan drive on the financial stability with particular emphasis on Return on Capital Employed (ROCE) and Return on Asset (ROA).

According to Akinsulire (2015) a high level of debt creates financial risk. Financial risk is the increased risk of equity holders due to financial gearing. When a company introduces fixed interest debt into its capital structure, it increases its financial risk, this is partly because the interest must be paid whatever happens to earnings. Furthermore Akinsulire (2015) did stressed on concealed gearing otherwise called off Balance Sheet gearing. It describes a method of financing which does not appear in the balance sheet e.g. Operating lease and borrowing through associate. If a company finances the acquisition of a fixed asset by a lease, only the lease payments will appear in the profit and loss account and no asset or liability appears in the balance sheet.

Capital structure has important implications for financial management purposes and the relative ratio of debt to equity in the capital structure is a fundamental factor. Akintoye (2016) describe capital structure as a mix of long term sources of fund comprising debt, equity or hybrid of securities of the firm. Akintoye (2016) further stressed the central objective of capital structure management which is to mix the long term sources of funds used by the firm in a manner that will maximize the firm's composite cost of capital.

Gearing represents the amount of long-term debt used to finance a company's assets as distinct from shareholder's equity (Glautier, underdown and Morris, 2016). A company with a large ratio of fixed-interest and fixed-dividend bearing capital to ordinary capital is a highly geared firm. Furthermore the importance of gearing is that fluctuations in net income may have disproportionate effects upon the return accruing to ordinary shareholders in the case of a highly geared company and eventually on the pricing of ordinary shares on the stock exchange. Therefore management looking for stability in the price of the organization's ordinary shares will be influenced by this consideration when confronted with raising further capital. The net cost of loan interest may be lower than the net cost in dividends of further issues of ordinary shares. Similarly fixed dividend preference shares may also cost lower than issuing ordinary

shares. Akintoye (2016) did emphasize on the imperfection affecting the capital structure to include the bankruptcy costs. Where we need to aggregate the bankruptcy costs, administrative and other costs associated with bankruptcy the levered or geared firm may be less appealing to investors than the unlevered or ungeared firm this is because the highly geared firm will have more debts to undertake than the unlevered firm

7. Categories of Gearing

The following types of gearing attest to the flexibility with which the computation of gearing is done so that a meaningful outcome could be established when the results are compared.

First Gearing Ratio = Fixed Interest Capital + Preference Share Capital / Shareholders funds

Second Gearing Ratio = Fixed Interest Capital + Preference Share Capital / Capital Employed

Third Gearing Ratio = Total Debt / Shareholders funds

Fourth Gearing Ratio = Interest on Debt / Earnings Before Interest and Tax

Gearing can be used to assess business and financial risk which can be considered from three perspectives. They are:

- Operating Gearing - Operating gearing exists when changes in sales produce greater changes in Earnings Before Interest and Tax (EBIT). It relates to the extent of the use of fixed costs in the operation of the firm (Olowe, 2016). For a highly operating geared concern increase in sales will automatically transform into an increase in profit and this will dovetail into the financial stability of the said concern. Whereas a drop in sales will erode the profits and losses reported.
- Financial Gearing - This entails the adoption of fixed interest sources of long term funds in the capital structure of a company. The fixed interest sources of long term funds consist of long term debt and preference share capital. As long as the firm is able to generate sufficient profit to offset the cost of debt as they call for settlement and still able to declare and pay dividends from time to time, this could be enough to reduce financial risk and eventually restore the confidence of shareholders.
- Combined Gearing - According to Olowe (2016), combined gearing combines the effect of business and financial risk. He further buttress that the degree of operating leverage or gearing and the degree of financial leverage or gearing can be combined to show the total leverage effect for a given change in sales on earnings available to equity shareholders.

8. Return on Capital Employed

According to Salawu (2017), Return on Capital Employed (ROCE) shows the efficiency of management in utilizing the resources placed at its disposal. It is a primary measure of profitability. (ROCE) is an accounting ratio that appears to be widely used by management and investors as a summary indicator of business success and while usually warning readers about its weakness and for such purpose as accounting and financial statement analysis textbooks continue to include it in the financial analyst's battery of ratios (Kwong, Munro, and Peasnell, 1995)

The criterion most commonly employed for assessing the financial performance of investment centres is the ROCE (Glautier, Underdown and Morris, 2016). They stressed extensively that ROCE is a comprehensive measure of financial performance which enables comparisons to be made between companies and divisions for the purpose of evaluating the efficiency with which assets are utilized. One of the weaknesses of ROCE is that when comparing the performance of similar divisions it requires the measurement of income and capital employed which are free from accounting bias (Garcia, 2016). Another drawback is that in circumstance where factory building, production facilities, office, canteen and other facilities are shared by more than one division the challenge of allocating the costs of these facilities and the value of the investment which they represent (Giles, 2016).

The major fallout of ROCE bothers on conceptual weakness that arises from the fact that different investments will have different ROCE percentages. Therefore if the ROCE for the whole organization is 20% some divisions will be above this while some will be below it.

ROCE can be expressed in other form apart from the globally accepted standard of computation.

Return on Net Assets = Profit Before Interest and Tax / Total Assets less Current Liabilities

Return on Shareholders' equity = Profit After Interest and Tax / Shareholders' equity

ROCE = Profit Before Interest and Tax / Capital Employed * 100 / 1

Capital Employed could be expressed in the following ways:

- Share capital Only
- Share Capital plus Reserves
- Share Capital plus Reserves plus Long term loan
- Share Capital plus Reserves plus Long term loan plus Current Liabilities

9. Dividend Growth

Bhattacharya (2009) and Miller and Rock (2015) described optimal dividend payments as signals of future profitability. Rozeff (2012) argues that higher dividend payments reduce agency conflicts between managers and shareholders and finds evidence of relationships among growth, profitability, and dividends. Greater business risk makes the expected direct relationship between current and expected future profitability less certain.

The dividend growth rate is the annualized percentage rate of growth that a particular stock's dividend undergoes over a period of time. The dividend growth rate is necessary for using the dividend discount model. The dividend discount model is a type of security pricing model. According to Akintoye (2016) the dividend discount model (DDM) enables us to

solve the rate of discount that equates the present value of the stream of expected future dividends with the current market price of the stock. He further underscored that the firms' dividend policy is crucial and depends on the different kinds of shareholders in the organizations and that this borders on issues such as their belief and value judgment.

Theories of dividend policy are the dividend irrelevancy theory and the dividend supremacy/relevance theory. The irrelevancy says that the payments of dividends are irrelevant and the amounts paid do not affect the value of the company in the long run (Modigliani and Miller, 1961). The protagonists of the dividend supremacy theory argued that dividends were all that mattered in the determination of share prices (Walter and Gordon, 1959). The pricing model assumes that the estimated future dividends, discounted by the excess of internal growth over the company's estimated dividend growth rate, determine a given stock's price. If the dividend discount model procedure results in a higher number than the current price of a company's shares, the model considers the stock undervalued. Those who use the dividend discount model believe that by estimating the expected value of cash flow in the future, they can find the intrinsic value of a specific stock (Gerald, Donald, and Thomas 2012)

A history of strong dividend growth could mean future dividend growth is likely, which can signal long-term profitability for a given company. When an individual calculates the dividend growth rate, they can use any interval of time they wish. They may also calculate the dividend growth rate using the least squares method or by simply taking a simple annualized figure over the time period (Gerald, Donald, and Thomas 2012)

10. Theoretical Review

10.1. Pecking Order Theory

Pecking order theory was developed by Stewart C. Myers in 1994. It states that organizations prioritize their sources of financing according to the law of least effort or of least resistance preferring to raise equity as a financing means 'of last resort'. To this end internal funds are used first and when that is fully utilized, debt is issued and when it is not sensible to issue any more debt, equity is issued. This theory maintains that businesses adhere to a hierarchy of financing sources and prefer internal financing when available and debt is preferred over equity if external financing is required. The relevance of pecking order theory to this work is that the proportion of debt to equity that organizations should adopt will not pose a threat to the going concern concept of such concern but rather it would enable firms to prioritize whether more of borrowings to equity should be employed to run the business or to have more equity holders than debt to run the business. The business may also decide on equal proportion that will be to the betterment of all stakeholders.

10.2. Stakeholders Theory

The stakeholder's theory on value creation is predicated on the essence of identifying who stakeholders are and how their interest could be enhanced. It was originally detailed by Ian Mitroff (1983) in his book 'Stakeholders of the organizational mind'. The theory recognizes all parties, individuals or persons who assume risk either within or outside the organization or who incurred losses from the activities of the concern are regarded as stakeholders. It is not enough to strive to maximize the interest of customers and fund providers (debt and equity) while leaving out the stakeholders as this would not engender social optimum. Some of the stakeholders are employees, customers, suppliers, financiers, communities, governmental bodies, political groups, trade associations and trade unions.

We should also be stressed that competitors are sometimes counted as stakeholders. According to Miles (2011) the nature of what constitutes a stakeholder is highly contested. The stakeholder view of strategy incorporates both a resource-based view and adds a socio-political level. One common version of stakeholder theory seeks to define the specific stakeholders of a company i.e. the normative theory of stakeholder identification and then examine the conditions under which managers treat these parties as stakeholders. The relevance to our study is based on the need to integrate the interest of debenture and equity holders so that this could attract other potential investors to the firm. Furthermore, all attempts to balance the interest of all concerned are considered significant so that by so doing value creation would be ensured.

11. Empirical Review

11.1. Gearing (Debt/Equity) and ROCE

Pratheepkanth (2011) carried out an investigation on capital structure and financial performance of some selected companies on the Stock Exchange between 2005 – 2009. Capital structure was surrogated by debt while performance was proxy by gross profit, net profit, Return on Investment, Return on Capital Employed, and Return on Asset. The results showed that the relationship between capital and financial performance is negative.

Ong and Teh (2011) investigated capital structure and performance of construction companies for a period of four years, 2005 – 2008 in Malaysia. Long term debt to capital, debt to capital, debt to asset, debt to equity market value, debt to common equity, long term debt to common were used as proxies and independent variables while return on capital, return on equity, earnings per share, operating profit margin were used to surrogate corporate performance. The output showed that there is relationship between capital structure and corporate performance.

Rio & Garry (2008) in their study 'The impact of unsecured debt on financial pressure among British households' interrogated the factors which determine whether debt is considered a problem and whether the importance of those factors changes over time. Their focus was on problems with unsecured debt, consisting mainly of overdrafts, credit cards and personal loans. While the majority of household debt in the UK is in the form of mortgages, the majority of debt problems are associated with unsecured debt, fundamentally because it not backed by an asset that can be sold or re-

mortgaged when difficulties arise. We use attitudinal evidence from the British Household Panel Survey (BHPS) on the extent to which households consider unsecured debt to be a burden as a measure of financial pressure and use an ordered-logit approach to assess how this is affected by the amount of outstanding unsecured debt and other possible determinants. They concluded by asserting that ordered-logit model of the probability of reporting debt problems suggests that the main determinant of debt problems is the unsecured debt income ratio. Other than the unsecured debt-income ratio, the most important factors affecting the likelihood of a household reporting debt to be somewhat of a burden in year 2000 are the level of mortgage income gearing, the level of financial wealth of the household, their health, ethnicity and marital status.

12. Justification for the Study

There is no gainsaying the fact that there are avalanche of studies on financial stability due to the sensitive momentum it connotes as such the need for multinationals and other organizations to continue to gauge their financial stability. However not much studies have been exercised in the aspect of a nexus between gearing and financial stability most especially as it relate to the Nigerian environment. For instance Gregory (2013) in his study on 'private equity and financial stability' investigated the implications of the gearing associated with private equity tailored towards the stability of the United Kingdom financial system. The first aspect sets out some background on private equity and its involvement in the United Kingdom private sector. The second segment appraised some benefits and cons of private equity buyouts for the target company. The third section sets out two key risks for financial stability arising from the increased gearing.

Oke and Afolabi (2011) investigated the impact of capital structure on industrial performance in Nigeria. Debt/equity and equity financing were used as proxy for capital structure while profit efficiency a surrogate for performance. For equity and debt/equity on performance, a positive relationship existed but a negative relationship between debt financing and performance was discovered. Methodology used is perceived as a gap for the discordance result.

Also, Muradoglu, Bakke and Vernes (2005) in their study investigated the 'predictive ability of gearing in the long term offirms. Their study considered a long-term investment strategy based on gearing ratios. The need to localize gearing and financial stability to the Nigerian environment where researches are demanding to be conducted prompted the urge for our study. We shall be considering debt/equity and Return on Capital Employed (ROCE) which as a study is perceived to be in short supply but very fundamental to the fortune of many concerns. More importantly it is to also institute a study on debt/equity and dividend growth where not much has been done but which we adjudged very vital because the confidence of equity holders will go a long way in the sustenance of the business.

13. Methodology

13.1. Research Design

The research design for this study is *ex post facto* and the justification for our choice is because secondary source of data would be garnered from the financial report of the Public Listed Companies. Karabarounis, Macnamara and McCord (2014) explored *ex post facto* in which their analysis borrowed several elements from the work of Covas and Den Haan (2011), who look at disaggregated data from Compustat and document the cyclical properties of firm finance for different firm sizes and the recommendation were invaluable. Antebi and Krauthamer (2014) also adopted *ex post facto* in their study which led to a conclusion that the use of indebtedness as part of a United State of America's subsidiary capital structure is often advisable from a tax point of view.

14. Population of the Study

The population size for this study comprises selected companies that are quoted on the Nigeria Stock Exchange (NSE). Effort will be instituted towards integrating almost all the sectors so that objective findings could ensue from the research exercise. One hundred and eighty six (170) companies listed on the NSE were considered as population comprising eleven sectors. The justification for our proposed adoption of the publicly quoted companies is anchored on the reliability of getting data for the study since most of these concerns usually have both abridged or comprehensive picture of their state of affairs at particular periods

15. Sample Size and Sampling Technique

The sample size comprised sixty (60) listed companies on the Nigerian Stock Exchange (NSE) while the sampling technique adopted was stratified sampling on the premise that will give all eleven sectors on the (NSE) equal chances of being selected. Also stratified sampling will ascertain reasonable representation of each type of category and this will go a long way in ensuring trust and reliability. Furthermore stratified sampling technique improves the impeccability of the sample estimates.

15.1. Method of Data Collection

Secondary source of data of the public companies on the Nigeria stock Exchange was explored as this might be the veritable avenue of extracting important information for the study. Instrument of Data collection
The instruments of data collection for this study are audited financial statement of selected listed companies in Nigeria. The reason for wanting to adopt the audited financial statement is predicated on our perceived impeccability and genuineness of elements in the financial statement since it must have undergone certain degree of assurance by the efforts of auditors cum forensic accountants and forensic auditors under a critical situation.

15.2. Administration of Data

The category of data to be utilized for the study is panel data. The justification for panel data is based on the time series and cross sectional data that we intend to explore for the study. Our definition of panel data is defined below:

Series	Cross Section	Time	Total Observation
Panel Data	$N > 1$	$T > 1$	NT

15.3. Method of Data Analysis

The panel data that we hope to explore in this study will hinge our reliance on the financial report of selected listed companies for data and should demand that subjecting the data of the firms to requisite tests overtime might precipitate a more rational decision by stakeholders than limiting our study to time series or cross-sectional data in which just one cross section and one period data respectively is being subjected to test.

15.4. Model Specification

Panel data adopted for this study should propel a more robust reportage than the time series and cross sectional data. Particularly we shall build panel co integration model before forging ahead to develop the panel dynamic OLS model so that this might take care of infinitesimal sample bias and endogeneity bias that may be as a result of simultaneous causality or other related factors.

Dependent variable (Y_F) = Performance

Independent Variable (Y_G) = Gearing

$Y_F = F(D, E, DE, Z_1, Z_2)$

Where:

$D = \text{Debt} = x_1$, $E = \text{Equity} = x_2$, $DE = \text{Debt} / \text{Equity} = x_3$,

$Z_1 = \text{Moderating Variable One}$, $Z_2 = \text{Moderating Variable Two}$

$y_1 = \text{Return on Capital Employed (ROCE)}$

$y_2 = \text{Growth in Dividend (GD)}$

16. Results and Discussion of Findings

The regression results based on pooled OLS, fixed effect models, and random effect models are presented in this section. The analysis starts with the estimation of the ordinary least square (OLS) because it serves as the linkage between the traditional approaches and the modern approach to econometrics. However, a major weakness of this approach is that it does not account for heterogeneity, thus estimates derived from the OLS are biased and unreliable. In this study, we used the panel regression estimators to salvage this problem. For the panel regression estimator, Hausman's test is conducted to determine a more efficient model. A significance of the test implies fixed effect; otherwise we use the random effect model. However, to use random effect model, the Breusch-Pagan Lagrangian multiplier for random effect is conducted, if it is significant we will use the random effect for the purpose of our analysis, otherwise we use the pooled OLS. The major advantage of the panel regression estimator over the pooled OLS is that it accounts for unobserved heterogeneity. However, the panel regression used in this study covered the financial, non-financial and the full sample hence the use of three models.

17. Empirical Analysis

This section discusses the panel regression results for the Fixed Effect, Random Effect, Normality and Heteroscedasticity estimation models for each for each of the models for the period spanning 2000 to 2017. The essence of the Hausman test is to ascertain the model that is more preferable. If the Hausman test is significant the study will adopt the Fixed Effect but where the Hausman test is not significant this study will make use of random effect model.

18. Data Analysis

18.1. Test of Hypothesis One (H_{01})

- Research Objective 1: Evaluate the effect of Debt on Return on Capital Employed (ROCE) of selected listed companies in Nigeria
- Research Question 1: How does Debt affect Return on Capital Employed of selected listed companies in Nigeria?
- Research Hypothesis 1: How does Debt affect Return on Capital Employed of selected listed companies in Nigeria?

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
VARIABLES	POOLED	REM	FEM	POOLED	REM	FEM	POOLED	REM	FEM
DT	-23.3792*** (8.8683)	-16.9864 (15.1835)	-14.4958 (15.0675)	-24.0978*** (4.1833)	-23.7993*** (5.8572)	-23.5485*** (6.2727)	-22.9364*** (3.4509)	-20.6941*** (5.2036)	-19.2670*** (5.4611)
EQ ₋	-0.0223 (0.0143)	-0.0073 (0.0123)	0.0004 (0.0198)	0.0627* (0.0331)	0.0141 (0.0588)	0.0003 (0.0643)	0.0080 (0.0066)	0.0060 (0.0088)	0.0132 (0.0119)
FO	-0.1267* (0.0764)	-0.1213** (0.0517)	-0.1282 (0.0893)	0.1399*** (0.0480)	0.1501** (0.0754)	0.1411 (0.0881)	0.1154*** (0.0386)	0.1318** (0.0616)	0.1365* (0.0712)
MO	0.0299 (0.0631)	0.1267** (0.0599)	0.1662** (0.0730)	-0.2131*** (0.0404)	-0.2240*** (0.0573)	-0.1920*** (0.0701)	-0.1808*** (0.0352)	-0.0815 (0.0604)	-0.0007 (0.0795)
IO	-0.1679** (0.0761)	-0.0478 (0.0972)	0.0611 (0.0876)	0.1592*** (0.0553)	0.0514 (0.0959)	-0.0291 (0.1168)	0.0912** (0.0464)	0.0361 (0.0720)	0.0130 (0.0873)
FZ	26.5911** (10.2612)	19.0336 (17.0179)	13.4542 (22.4395)	23.4388*** (4.6507)	22.8501*** (6.3928)	25.4071*** (8.1253)	23.0098*** (3.7718)	20.6097*** (5.6139)	21.7692*** (7.2114)
FA	0.0994 (0.0909)	0.1057 (0.1288)	0.3117 (1.1612)	-0.1569*** (0.0593)	-0.3243*** (0.1221)	-1.1113** (0.4732)	-0.0686 (0.0498)	-0.1844* (0.1039)	-0.9715** (0.4689)
Constant	-62.9517** (30.1951)	-44.9410 (43.0883)	-0.2364 (182.1849)	12.3095 (14.2236)	27.8978 (22.9716)	21.7230 (60.9397)	-2.6591 (10.9908)	5.8903 (20.2897)	-1.3872 (62.0508)
Observations	150	150	150	450	450	450	600	600	600
R-squared	0.199	0.102	0.110	0.237	0.160	0.1711	0.2014	0.117	0.1286
F-test	1.712		9.788	16.10		6.813	12.18		3.268
Prob> F	0.111		0.000	0.000		0.000	0.000		0.005
Wald-chi2		30.76			48.13			27.75	
Prob> chi2		0.000			0.000			0.000	
LM		33.23 [0.000]			327.46 [0.000]			444.61 [0.000]	
Hausman		6.77 [0.453]			9.69 [0.207]			11.60 0.1144	

Table 1: Regression Estimate for Objective 1

Source: Author's Computation, Underlying Data from Annual Reports of Firms Listed on NSE. Dependent Variable is the Return on Capital Employed (ROCE). Explanatory Variables are; Debt (DT), Equity (EQ), Foreign Ownership (FO), Managerial Ownership (MO), Institutional Ownership (IO), Firm Size (FZ), Firm Age (FA) *** P<0.01, ** P<0.05, * P<0.1

Test	Model	Breusch-Pagan / Cook-Weisberg test	
		Chi2	P - Value
Heteroskedasticity	Model 1	39.46	0.0000
	Model 2	35.45	0.0000
	Model 3	48.66	0.0000

Table 2: Heteroskedasticity and Normality Tests for Debt

Source: Author's Computation, Underlying Data from Annual Reports of Firms Listed on NSE

Figure 1: Return on Capital Employed Models

19. Discussion of Findings

Table 1 shows that some other studies like Karimi, Abdoli and Eskandari (2017) studied the relationship between private ownership and debt cost. This research investigated public and private ownership companies and the relationship with the created debt cost for understudied company. The results demonstrated that private ownership, in understudied companies, is significantly related to decreased debt cost. Also, Jara, Pinto-Gutienez, and Nunez (2018), examined the effects of family control and pyramidal ownership on firms' capital structure decisions. The study tested the hypothesis

that family firms restrict the use of debt in order to avoid the monitoring role of creditors, which could limit their enjoyment of the private benefits of control. They found that listed family firms provide more loans to related companies than comparable nonfamily firms. Agenor and Da Silva (2012) in their study 'Macroeconomic Stability, Financial Stability and Monetary Policy Rules' did review arguments for and against attributing an explicit financial stability objective to monetary policy. The authors established a significant relationship between monetary policy and financial stability. Tsegba and Wilson (2004), in their study examined the relationship between ownership structure and performance from the perspective of listed Nigerian companies. The study provided evidence which suggests that insider ownership is inversely related to firm performance.

Alawode and Al Sadek (2008), in their paper series on financial stability surveyed different definitions of financial stability championed by two separate schools of thought and Ulgen (2017) in the study 'Financialization and Vested Interests: Self-Regulation vs. Financial Stability as a Public Good. The two papers concluded and recommended on the basis of a significant relationship between the explained and explanatory variables.

Farcas (2016) in the study 'The Interaction of the IFRS 9 Expected Loss Approach with Supervisory Rules and Implications for Financial Stability' examines the impact of the International Financial Reporting Standard (IFRS) 9 expected credit loss model with interventionist functions and discusses potential implications for financial stability in the European Union. The conclusion would afford other researchers the opportunity of further study in this area of research since the author did more of reviewing the standard. Shin and Kim (2017) in their study 'Impacts of household loan regulation on financial stability' examines whether banking regulations and monetary policy contributed to controlling the fragility of household debt in Korea and the result of study was in the affirmative. The study concluded a significant relationship between regulation and financial stability.

19.1. Test of Hypothesis Two (H_{02})

- Research Objective2: To investigate the impact of Equity on Dividend Growth of selected listed companies in Nigeria
- Research Question 2: What is the impact of Equity on Dividend Growth of selected listed companies in Nigeria?
- Research Hypothesis 2: There is no significant impact of Equity on Dividend Growth of selected listed Companies in Nigeria

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
VARIABLES	POOLED	REM	FEM	POOLED	REM	FEM	POOLED	REM	FEM
DT	-7.1945*** (1.4621)	-4.0058* (2.3524)	-2.8541 (2.7089)	-2.2266*** (0.7509)	-1.9352** (0.8996)	-2.0197** (0.9725)	-1.8470*** (0.5966)	-1.3878* (0.7718)	-1.2858 (0.8987)
EQ	0.0073 (0.0046)	0.0030 (0.0054)	0.0054 (0.0070)	-0.0128 (0.0177)	-0.0276 (0.0323)	-0.0213 (0.0335)	0.0172*** (0.0034)	0.0083 (0.0054)	0.0098 (0.0064)
FO	-0.0149 (0.0293)	-0.0236 (0.0312)	-0.0049 (0.0293)	-0.0181 (0.0129)	0.0155 (0.0218)	-0.0076 (0.0274)	-0.0061 (0.0113)	0.0172 (0.0173)	0.0101 (0.0207)
MO	0.0484* (0.0252)	0.0412 (0.0439)	0.0543 (0.0523)	-0.0465*** (0.0123)	-0.0290 (0.0180)	0.0011 (0.0201)	-0.0404*** (0.0111)	-0.0022 (0.0203)	0.0346 (0.0266)
IO	-0.0554** (0.0243)	-0.0382 (0.0248)	-0.0153 (0.0206)	-0.0678*** (0.0154)	-0.0665** (0.0309)	-0.0351 (0.0292)	-0.0689*** (0.0134)	-0.0560** (0.0238)	-0.0247 (0.0231)
FZ	9.6081*** (1.8511)	6.0877** (2.8478)	4.7596 (3.2880)	2.8140*** (0.8651)	1.5610 (0.9799)	1.3742 (1.4523)	2.1139*** (0.6668)	1.2233 (0.7745)	0.6210 (1.2183)
FA	-0.0564** (0.0261)	-0.1027 (0.0744)	-0.2956 (0.4394)	-0.0002 (0.0200)	-0.1134** (0.0447)	-0.4012** (0.1512)	-0.0047 (0.0162)	-0.1115*** (0.0417)	-0.3638** (0.1382)
Constant	-37.8364*** (9.2970)	-28.1349* (14.3934)	-17.9514 (30.2184)	-0.3355 (4.6049)	20.0178** (9.3842)	38.3025** (17.1651)	3.8777 (3.3902)	15.2364** (6.7159)	34.5096** (14.5528)
Observations	150	150	150	450	450	450	600	600	600
R-squared	0.527	0.066	0.075	0.124	0.125	0.166	0.189	0.061	0.108
F-test	44.56		0.984	13.70		2.565	29.06		2.638
Prob> F	0.000		0.480	0.000		0.026	0.000		0.019
Wald-chi2		153.7			19.22			23.61	
Prob> chi2		0.000			0.008			0.001	
LM [P – value]		69.75 [0.000]			566.73 [0.000]			693.33 [0.000]	
Hausman [P – value]		5.32 [0.622]			54.32 [0.000]			60.33 [0.000]	

Table 3: Regression Estimate for Objective 2

Source: Author's Computation, Underlying Data from Annual Reports of Firms Listed On NSE. Dependent Variable Is the Dividend Growth (DG). Explanatory Variables Are; Debt (DT), Equity (EQ), Foreign Ownership (FO), Managerial Ownership (MO), Institutional Ownership (IO), Firm Size (FZ), Firm Age (FA) *** $P < 0.01$, ** $P < 0.05$, * $P < 0.1$

Test	Model	Breusch-Pagan / Cook-Weisberg test	
		Chi2	P - Value
Heteroskedasticity	Model 1	1.16	0.2821
	Model 2	0.08	0.7825
	Model 3	4.55	0.0329

Table 4: Heteroskedasticity and Normality Tests for Equity

Source: Author's Computation, underlying data from annual reports of firms listed on NSE

Figure 2: Dividend Growth Models

Table 3 and Table 4 above shows that according to Kwong, Munro and Peasnell (1995) in their study expected returns and expected dividend growth were investigated and their study established a significant relationship between returns and growth. Also, Muradoglu, Bakke and Vernes (2005) in their study investigated the predictive ability of gearing in the long term of firms. Their study considered a long-term investment strategy based on gearing ratios. The robustness of the output was tested for using frequently used proportions such as book to market, price earnings and size ratios. Firms may utilize the results by identifying the debt to equity proportion that would maximize shareholders value.

Ulgen (2017), Kim, Park and Song (2016) were among those that considered ownership structure from the perspective of gearing and financial stability even though they were silent on the nomenclature. Their study focused more on the financial sector. Phuong and Tannous (2017), were of a major concern for managers in retaining or increasing their control because they felt it provides them with discretion in making decisions and access to private benefits

Jelinek and Stuerke (2009) predicated their study on how the ownership level increases the ability of managerial ownership to reduce agency cost. Their finding also indicates that in some industries managerial equity ownership proves less successful after certain level even proves worse on another higher levels. Huang and Boateng (2013), established more of a similar scenario of a significant relationship between the ownership structure and financial stability

(Yousefi, Farajzadeh and Nasirpour 2015), in their study further posited that More than 50 percent of company stock belongs to government or state companies. The rationale for this was not detailed enough. (Yousefi, Farajzadeh and Nasirpour 2015) concluded their study by being of the view that Institutional investors closely monitor firm management performances and put pressure on the firm and its management through share buying and selling, and or control over management. Their study was unable to give a robust recommendation for potential users. Karimi, Abdoli and Eskandari (2017) revealed in their study that if institutional investors own a firm's major share, the sale of shares would be more difficult and their supervisory role would be more highlighted. Their recommendation and discussion of findings may not be sufficient for policy decision

20. Implications of Findings

20.1. To Regulators

The implication to regulators such as Security and Exchange Commission (SEC) and Central Bank of Nigeria (CBN) is that management structure that is devoid of one ownership type or the owner might lead into a disincentive or erosion of confidence of potential and current shareholders of companies. Shareholders might not be convinced of the financial stability prowess of concerns that lack ownership picture.

20.2. To Debt Owners

The debt owners will normally have assurance of the financial stability of firms with managerial ownership that this will eventually dovetailed into the firm's ability of fulfill its financial obligation to the various debenture and long term liability owners to the company.

20.3. To Equity Holders

The financial stability that is a result of the ownership structure is a signal of a significant risk management of equity finance. This means a constant assurance of returns on their investment will largely depend on the management composition in the daily administration to include one form of ownership structure or the other since this management will naturally want the progress of the firm.

20.4. To Potential Investors

The potential investors is equally convinced of the viability of the organization whose management have ownership stake or institutional cum foreign holders as owners. Return on capital employed via managerial ownership is a pointer to influence potential investors that hope of return on investment abounds in such a concern.

20.5. To Researchers

The result from correlation matrix in the explanatory variables considered in this study was subjected to multicollinearity test using variance inflation factor (VIF) and the result was conspicuously presented. The VIF (and tolerance) is based on the proportion of variance the i th independent variable shares with the other independent variables in the regression model. It is a measure of the i th independent variable's collinearity with the other independent variables in the analysis and is connected directly to the variance of the regression coefficient associated with this independent variable (O'Brien, 2007).

Various authors have emphasized that a VIF that exceeds 10 and a tolerance value that is below 0.10 are interpreted as casting doubts on the results of the regression analysis. Judging from the result, the average VIF values are 3.53, 3.87 and 3.47 for financial, non-financial and full sample respectively. Additionally, all the tolerance values are less than 0.10. These indicate that the variables under consideration are not perfect linear combination of each other. Thus, it concludes that there is no harmful effect of multicollinearity.

21. Conclusion and Recommendations

This study has been able to establish that with reasonable involvement of debt and equity owners in the affair of a concern they tend to positively contribute to engender a return on asset for the firm. Also is the fact that equity holders particularly major holders, will not exhibit lethargy and apathy towards capital adequacy but would rather as a stakeholder encourage mechanism that will attract capital into the firm until capital adequacy is ascertained. Capital being wealth that is set aside for the production of further wealth means its adequacy would cumulate into greater fortune for the business.

- The Government should as a matter of policy mandate the Boards of all public listed companies to involve as part of their composition those who have one kind of debt or equity ownership or the other in the organization that they have been saddled to superintend.
- There should be a virile mechanism of timely and qualitative monitoring of concerns in ensuring that any attempt to jettison ownership stake for a non-ownership structure will be taken as fraudulent and criminal intent without any doctoring.
- Ownership stake should not be limited to the management alone but should also be extended to the rank and file or other lower level management as this synergy could go a long way in engendering the financial stability of firms. This means that the quality of ownership in terms of intellectual depth and other natural endowment would go a long way in adding value to the business as such training and retraining of all categories of workers are very fundamental
- Ownership of any kind should be structured to accommodate equity and debt holders so that the risk ingredient that most concerns are vulnerable to one way or the other would have been considered. The work of Jeleel and Olayiwola (2017) that where an organization continues to make profit while debt is kept constant or reduced, this will in turn result into huge returns to equity holders because account payable which normally deplete resources is reduced. The Federal Government of Nigeria could learn from this study in that although the nation continues to sell crude oil and realize return, as long as the service cost on loans keep increasing the government may be hamstrung to provide tangible infrastructure due to pressure the service cost fulfillment might put on revenue. As such all effort should be introduced towards reducing the interest on all loans to a bare minimum.

22. Contribution to Knowledge

22.1. To Policy

Impartation to education in Policy is in the growth and expansion of firms that is now possible and attainable. Since gearing and performance are statistically significant with significant relationship between the two variables, it means the performance status being effectively driven by the gearing position firms to meet their financial commitment in conformity with corporate governance as such unnecessary waste and profligacy will be eschewed placing such firms at a vantage position of having enough resources to radiate growth and expansion.

22.2. To Concept

This research study has contributed to knowledge via using a conceptual model that explored the proxy of ownership structure and financial stability as variable source of a robust discovery. This means that the mix of debt cum equity adopted by a concern would reasonably drive the performance to a statistically significance vantage position.

22.3. To Literature

To ascertain that a significant level of return on capital employed is consistently realized by firms, the mix of debt and equity explored in the running of the business must be judiciously used taking into cognizance the cost/benefit analysis so that the project may not be counterproductive eventually.

To Theory

This study also contributes to theories by buttressing the legitimacy theory which professes a social contract between the organization and the society. Ownership structure is a medium to engender the social contract because as owners with blocks of shares they will pursue to the letter all strategies that will make management to act ethically and professionally in their service to the society. The fact that they would be enjoined to bring about information disclosure and accountability are essential ingredients that should impact financial stability to a reasonable extent. There is also a theoretical contribution to knowledge of lending credibility theory where ownership structure such as managerial and institutional ownership towards the financial stability of a firm will go a long way in restoring the confidence of current and potential stakeholders. Some stakeholders are more favourably disposed to managerial ownership while some believed more in institutional ownership and of course some may tilt towards foreign ownership in that as long as these aforementioned hold sway they will naturally support policy that generate returns back to the shareholders.

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