THE NEXUS OF CAPITAL STRUCTURE AND FIRMS' PERFORMANCE IN NIGERIA

Babatunde R. Yusuf, Lagos State University, Ojo, Lagos, Nigeria
Akinwunmi K. Onafalujo, Lagos State University, Ojo, Lagos, Nigeria
Yusuf A. Soyebo, Lagos State University, Ojo, Lagos, Nigeria

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ABSTRACT

The study examined the impact of capital structure on the performance of Nigeria firms. Simple random sampling technique was used to select 10 quoted companies based on the highest share price per unit from the three leading sectors that comprise financial services, consumer goods and conglomerate. This is crucial in order to increase the understanding and general practices of capital structure in Nigeria including the flexibility of leverage on each sector. The study employed the use of secondary data. The sample interval is for twelve-year period from 2000 to 2011 with ratio analysis chosen as a performance measurement. The study measures the relationship between the proxy of firm performance (Return on Asset, Return on Equity) and the proxy of capital structure (Debt to Asset ratio, Debt to Equity ratio). Their relationships were examined through the use of correlation matrix. The findings revealed that majority of the selected firms show a moderate and weak relationship with the return on asset and return on equity vis-a-vis the debt-equity ratio and debt asset ratio. The findings also depict that the variations in the degree of the relationship between the variables of the selected firms is attributed to their different stage in business cycle that often require various strategies competing in the business environment one of which is the development of an appropriate capital structure. We therefore conclude that capital structure is negatively related with firms performance as far as the sample of Nigeria firms are concerned as 60% of the correlation coefficient are negative across the total result. It was recommended that firmâ € ™finance managers should identify the optimal capital structure that will help to attain the best financial performance in their various business dealings.

Keywords: *Capital Structure; Quoted Firms, Performance, Ratio Analysis*