

Chapter One

Introduction

1.1 Background to the Study

The transformation of raw materials into finished consumer goods, producer goods, or intermediate goods is a function of the manufacturing sector in any economy. Like other industrial endeavors, manufacturing fosters employment opportunities, supports agriculture, diversifies the economy, and provides a reliable source of foreign exchange profits for the nation¹. Additionally, the sector aids in reducing the danger of an excessive reliance on imports or foreign trade. In both industrialized and emerging nations, manufacturing continues to be one of the most potent drivers of economic growth. It serves as a catalyst for changing a nation's economic system. Especially for emerging economies, the sector's potential benefits are now considerably bigger.

Manufacturing has emerged as the primary way for developing nations to take advantage of globalization and close the wealth gap with the industrialized world as a result of rapid technological progress, extensive deregulation, and growing defragmentation and internationalization of production. These potential advantages highlight the need of encouraging manufacturing in developing nations, including Nigeria¹. The industrial sector contributes significantly to the economy by energizing the whole country. This is because the industry is a part of the economy's protection and repair system, and its good operation can inspire other industries and the growth of the economy².

Decisions on a company's capital structure are crucial to its performance, and the board of directors of any company is responsible for making them. Although management is mostly in charge of structuring the mix of funding, with more instances of agency issues, boards of directors are increasingly acting as watchdogs in these decisions. The capital structure directly affects the health of the business, and shareholder interests have an impact on the funding strategy that management will employ. There were agency conflicts because the interests of the management and the shareholders were not aligned³. As a result, there is a long history of correlation between the company's capital structure and its profitability, performance, and market value^{4,5}.

Recent empirical research has demonstrated that managerial biases have a substantial role in influencing investment, merger, and financing decisions⁶. The corporate finance literature takes into account a wide range of managerial qualities and biases, including overconfidence, loss aversion, and escalation of commitment. It also takes into account factors including risk aversion, education, childhood experiences, and gender. Some contend that these characteristics and biases have a first-order effect on organizational performance. The fastest-growing area of behavioral finance research at the moment is behavioral corporate finance, particularly specifically managerial bias research⁷.

However, according to some authors, managers' varied traits, including their age, level of education, level of experience, and gender, among others, influence the funding options available to businesses⁸. It is vital to ascertain whether having certain managerial traits

would strengthen or impair the capital structure. Accounting, economics, and management researchers concur that managerial skills are essential for a firm's ability to exercise tactical and strategic control, conduct more rigorous oversight, and make financial decisions (like capital structure)⁹. Managers supervise from an agency perspective, and many skill sets are frequently required for efficient administration of businesses.

Ethnic diversity is another visible attribute that might have an impact on a company's capital structure. Ethnic diversity among the management team broadens knowledge, ideas, and experience through the variety of information resources from different cultural backgrounds, which diversifies funding sources. A company with a high level of cultural diversity in management is better able to exchange ideas, come to a final decision based on different points of view, and improve management performance by reaching an agreement among the diverse group of managers.

Numerous researches have undertaken on nexus between managerial personality and capital structure, with idea that managerial characteristics like growth and risk perception biases play a significant role in capital structure decisions like the debt-equity ratio and the timing of debt issuance decisions¹⁰. Managers with a growth perception bias claim that external financing is excessively expensive because they overestimate the increase of future earnings produced by their organization. According to the analysis in the article, manager "fixed effects" can account for a sizable portion of the variation in investment,

financial, and organizational practices of organizations. Risk perception bias causes managers to overestimate the risk involved in their company and underestimate the likelihood of financial distress¹¹. It was discovered that managers' aversion to risk contributes to how a corporation decides between debt and equity. The presence of manager fixed effects can account for a sizable portion of the diversity in investment, financial, and organizational practices of organizations⁵.

The managerial and demographic factors that make up a firm's internal environment are referred to as its firm characteristics¹². Business size, leverage, liquidity, revenue growth, asset growth, and turnover are a few examples of a company's characteristics. Others include the company's age, ownership structure, board composition, dividend payout, profitability, access to capital markets, and expansion prospects¹³.

Seven independent variables that served as proxies for firm characteristics were the focus of another investigation. Firm size, leverage, board composition, institutional shareholding, profitability, and liquidity are a few of these factors. These authors further divided such variables into three categories: firm performance variables, firm structure variables (firm size and leverage), and firm monitoring variables (board composition and institutional holdings) (profitability, liquidity and firm growth). Numerous variables that affect a firm's capital structure decision have been discovered by prior studies¹⁴. The majority of these research discovered that the choice of a firm's capital structure is

significantly influenced by firm characteristics^{15, 16, 17,18}. The difference in capital costs brought on by the diversity in business characteristics is what makes firm characteristics relevant.

1.2 Statement of the Problem

Decisions on the capital structure are typically seen as a trade-off between a wider variety of factors, including claimant conflicts of interest in addition to corporate taxes and bankruptcy expenses. However, there is currently no qualitative or quantitative advice available regarding how agency conflicts and managerial characteristics interact¹⁰. The condition of the company is directly impacted by the capital structure, and shareholder interests determine the funding strategy that management will implement. Agency conflicts result from divergent management and shareholder interests¹⁹. The listed manufacturing companies in Nigeria do struggle to turn a profit; this has an impact on their performance and may be due to a lack of funding or the fact that funding is only accessible at a high cost.^{20, 21, 22}. Determining the amount of each source of funding that will produce the best return with the fewest risks, therefore, is the problem of capital structure decision^{20,23}. One of the main factors contributing to corporate distress in Nigeria is the fact that the country's businesses tend to have insufficient capital, a mismatched financial structure, and an improper capital mix^{24, 25}. Firms typically have to choose from a long list of complex options when deciding on their capital structure. Most businesses must decide whether to use debt, new equity issuance, or retained earnings to

finance their investments. Since the board of directors does in fact approve and ratify management decisions, including those pertaining to capital structure, the board's role in capital structure decision-making cannot be disregarded.⁹ Nigeria's government and private sector have made significant investments to create a business-friendly environment, and as a result, some businesses have actually performed exceptionally well. However, a number of businesses are showing signs of decline, and several have even had their listings removed off the NSE in recent years. Mismatched capital structures and poor capital structure decision-making are linked to some failures.

Financial restructuring has been the focus of significant efforts to save the struggling and insolvent companies. However, despite the fact that many of the issues faced by the companies placed under statutory management were largely attributed to financing, managers and practitioners still lack adequate guidance for making the best financial decisions. Due to this circumstance, investors have lost both wealth and faith in the stock market.

A growing body of empirical evidence indicates that managerial traits have a significant impact on how businesses finance their operations^{26,11}. The body of research to date demonstrates that influential managers can directly affect the capital structure decisions of the company and may even use their influence to override the board. Despite the widely acknowledged importance of the effects of management attributes like age, education level, experience, and gender on corporate performance and behavior, as well

as the ensuing financial policies, understanding of the influence of a global, multi-facet, personality dimension, which may give a comprehensive and convincing rubric for evaluation and description of human (for example, CEOs) personality, on behavioral outcomes, and hence their impact on capital, is still absent²⁷.

Some significant company features, which can be divided into three categories: structural variables (firm size and leverage), monitoring variables (board composition and institutional holdings), and performance indicators, all have influence on the capital structure decision (profitability and liquidity). However, other scholars agree that it will be challenging to determine whether empirical capital structure findings are genuine correlations if their validity is not examined outside of the setting of industrialized countries. Similar to this, some people argue that studying a company's debt-to-equity ratio in a developing nation might help us understand the financing decisions that enterprises make, particularly in situations when there are serious agency and information problems²⁸.

The study that links capital structure, company value, and management ownership listed enterprises in East Africa is one example of the research that links capital structure, firm value, and corporate governance with performance²⁹. while a different author examined the firm characteristics and stock performance of a Nigerian listed company³⁰. In Nigeria, a study of business characteristics and financial results in listed manufacturing companies was conducted³¹.The study looked into the connection between firm value and

company qualities³². This research on the impact of capital structure on business value in Thailand³³. An analysis of the effects of capital structure on the financial performance of listed industrial companies in Nigeria whereas research into a company's financial structure and market value is done^{22,25}.

Some studies that examined factors that determine capital structure without accounting for managerial bias include^{33,34,35,36,37,38,39}. Managerial attributes and capital structure judgments by previous studies on managerial bias or characteristics include¹⁰. The study looked at publicly traded corporations in Bursa Malaysia's financial leverage decisions from an upper echelon perspective⁴⁰. Another study examined how the capital structure is influenced by managerial traits of NSE-listed companies in Kenya⁵.

Due to the peculiar macroeconomic environment of Nigeria and, in particular, the added problems brought on by institutional restraints and market inefficiencies, the study concentrates on Nigerian listed manufacturing enterprises. Government bonds, including those from the federal, state, and municipal governments as well as the so-called supranational bonds issued by the African Development Bank, are traded alongside stocks of manufacturing companies on the Nigerian Stock Exchange. Additionally, the competition between financial institutions (mostly commercial banks) and manufacturing companies has risen as a result of the federal government's mandated capitalization policy. Due to these difficulties, Nigerian manufacturing companies are forced to rely excessively on expensive bank funding, which restricts their ability to issue debt.

Since there is a lack of information on the combination of managerial traits, firm characteristics, and capital structure decision of listed manufacturing firms in Nigeria over a long period (10 years) 2010-2020, many studies have been conducted in the past on the capital structure decision in developed and some developing countries. These studies aim to determine how the 2010 financial crisis affects capital structure decision via firm characteristics and managerial traits. Years 2020 is an exception, though, as enterprises' access to external financing was constrained during the COVID 19 epidemic because of the worldwide economic crisis that included Nigeria. Because of this, there is a significant gap in the literature that this work fills.

1.3 Aim and Objectives of the Study

The broad objective of this study will examine the relationship between the managerial traits, firm characteristics and capital structure decision of listed manufacturing firms in Nigeria. The specific objectives are to:

- i) examine the relationship between managerial traits and capital structure decision of listed manufacturing firms in Nigeria;
- ii) investigate the influence of firm performance variables (profitability and firm growth) on the capital structure decision of listed manufacturing firms in Nigeria;
- iii) assess the relationship between firm structure variables (firm size and tangibility) and capital structure decision of listed manufacturing firms in Nigeria; and

- iv) evaluate the influence of firm monitoring variable (board composition and institutional shareholding) on the capital structure decision of listed manufacturing firms in Nigeria.

1.4 Research Questions

To achieve the research objectives, the study was examining the following research questions:

- 1) What is the relationship between managerial traits and capital structure decision of listed manufacturing firms in Nigeria?
- 2) To what extent do firm performance variables (profitability and firm growth) have influence on the capital structure decision of listed manufacturing firms in Nigeria?
- 3) What is the relationship between firm structure variables (firm size and tangibility) and capital structure decision of listed manufacturing firms in Nigeria?
- 4) What is the influence firm monitoring variable (board composition and institutional shareholding) on the capital structure decision of listed manufacturing firms in Nigeria?

1.5 Hypotheses

- 1) To achieve the research objectives, the following null (H_0) hypotheses will be formulated:
- 2) **H₀₁**: There is no relationship between managerial traits and capital structure decision of listed manufacturing firms in Nigeria

- 3) **H₀₂**: Firm performance variables (profitability and firm growth) have no influence on capital structure decision of listed manufacturing firms in Nigeria.
- 4) **H₀₃**: Firm structure variables (firm size and tangibility) have no relationship with capital structure decision of listed manufacturing firms in Nigeria.
- 5) **H₀₄**: Firm monitoring variable (board composition and institutional shareholding) does not have influence on capital structure decision of listed manufacturing firms in Nigeria.

1.6 Significance of the Study

This study is important and supported for a number of reasons. There are few studies that look at how listed manufacturing firms in Nigeria combine managerial qualities, company characteristics, and capital structure decisions over an extended period of time (10 years). By examining the managerial characteristics and business factors that affect the capital structure decision of listed manufacturing firms in Nigeria, the current study seeks to close these gaps.

This study, which added to a limited number of studies on the identification of managerial attributes and business factors on the capital structure decision of listed manufacturing firms in Nigeria, undoubtedly made a contribution to those studies.

Utilizing such a lengthy time frame to examine management attributes, company characteristics, and capital structure decisions will assure the validity and applicability of the study findings and, consequently, their generalizability. Since the goals of this study

include observing managerial behaviors, business characteristics, and capital structure decisions after the financial crisis, the lengthier time frame will also be essential.

Various shareholders and stakeholders, such as boards of directors, senior management, managers, policy makers, and regulatory authorities in Nigeria, will find the study's material beneficial in helping them manage their debt capital effectively and efficiently.

As it will demonstrate the influence of employing debt in project financing based on the company's characteristics to achieve a balanced capital structure, this study will assist managers in those corporations in making financing decisions that are in line with the essential objectives.

The work will also be helpful to scholars who are doing investigations into managerial attributes, business features, and capital structure decisions.

1.7 Scope of the Study

The study will concentrate on the capital structure decision, business characteristics, and management bias in Nigeria's listed industrial enterprises. However, over a ten-year period between 2010 and 2020, this study will only include all manufacturing companies that are listed on the Nigerian stock exchange. 2020 is an exception, though, as enterprises' access to external financing was constrained during the COVID 19 epidemic because of the worldwide economic crisis that included Nigeria.

The reason 2010 is a good pick is because it followed a year in which the capital market underwent significant reorganization as a result of the financial crisis that caused the

prices of stocks to plummet on the Nigerian Stock Exchange between 2008 and 2009. The study focused on variables relating to managerial qualities, such as age, educational attainment, experience, and gender, as well as firm characteristics, such as firm size and tangibility, board composition, institutional holdings, and performance indicators (profitability and liquidity).

1.8 Limitation of the Study

Due to the COVID-19 pandemic, which limited enterprises' access to external financing, the study was unable to cover the year 2020. In addition to the ones mentioned in the report, there are other factors that influence the ideal capital structure of listed companies. These factors, which have not been included in this study, include business complexity, liquidity, non-debt tax shelters, interest rates, business hazards, and profit efficiency. These are crucial elements that may not have been taken into account in this study to increase its level of accuracy. However, the study investigated publicly traded manufacturing companies in Nigeria, which provided a chance for reasonable results based on the study sample size.

1.9 Operational Definition of Terms

Capital Structure: This is a mixture of a company's debts (long-term and short-term), common equity and preferred equity.

Capital Structure Decision: This refers to the combination of the claim of ownership (debt or equity) employed by a firm to fund its operations.

Firm Characteristics are defined as a firm's financial and demographic aspects that are under management's control.

Debt Capital: This is a term used to describe a long-term obligation that an entity uses to finance its investment activities and comes with a protracted payback schedule.

Long-term Debt is any outstanding debt that a corporation has that has a maturity of more than a year.

Share capital, share premium, reserves, and surpluses are all referred to as equity capital (retained earnings)

Firm Size: The business unit or undertaking that owns, controls, and operates the facility is referred to as the firm. This was calculated using the overall log of assets

Leverage: This is the total amount of debt utilized to pay for additional capital investments that can boost a company's financial performance. Using the ratio of total debt to total assets, this is calculated.

Board Composition: This simply refers to the number of inside and outside administrators. In this study, it will measure as the ratio number of independent directors to the board size.

Institutional Shareholding: This is the distribution of equity with regard to notes and capital but also by the identity of the equity owner.

Asset Tangibility: This represents tangible assets use or pledge as a security while company source for fund. In this study, it measures as the ratio of fixed assets to total assets

Profitability: This is the ability of a business to earn a profit. This measured as the percentage of profit after tax to total assets' of book value.

Debt to Equity Ratio: This is a financial ratio that describes the proportion of shareholders' equity and debt utilized to fund the assets of a company.

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Endnotes

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Chapter Two

Literature Review

This chapter reviews related and pertinent literature on managerial characteristics, business characteristics, and capital structure. The following subheadings will be the main focus of the literature review: gap analysis, conceptual review, theoretical review, empirical data

2.1 Conceptual Review

2.1.1 Capital Structure

Equity capital, preference shares, and debt are the three types of financing that make up a company's capital structure. Also known as the financing framework for a company's general operations and expansion, the capital structure combines specific retained earnings, debt and equity capital¹. The management of businesses must give careful consideration to issues regarding capital structure and financial matters. This is due to the fact that firms' decisions on the use of various sources of funding result in various capital structures, which may have various effects on a firm's performance. This makes financial choices one of the key managerial concerns in business. Therefore, the adoption of a certain capital structure based on management skills and business characteristics may have a variety of effects on the performance of firms.

The capital structure refers to the combination of debt and equity that are prioritized over one another in a company's investment decision in order to maximize value for the company and the wealth of its shareholders². The choice of the best overall combination of these funding choices for starting and running the activities of the firm is also a key

consideration in the financial decision of capital structure. As a result, financial management is thought to have played a crucial part in formulating the capital structure of the company, which has an impact on its general operations, growth, and value².

The capital structure is the method through which the company finances its assets, typically by combining owner funds and leverage³. The several ways a company is financed, including the proportionate relationship between leverage and shareholders' funds, is known as capital structure⁴.

The two main categories of claims against a company's assets are claims based on leverage and owners funds (equity). The two different categories of investors in the company are shareholders and debt holders. Separate levels of threat, control, and advantages are associated with these assertions. Leverage refers to funds that the business acquired from a lender or from the public by issuing debentures through the stock exchange during a certain period during which principal and interest are repaid. When investors buy shares, they contribute money to the business and become owners because equity is a share of ownership in the company³. The combination of these claims in the firm's financing arrangements is referred to as the capital structure. Consequently, choosing a capital structure refers to combining the ownership claims (debt or equity) a company uses to finance its activities⁵. Aside from investment selections, a corporate organization's capital structure decision is another crucial financial one. It is significant since it involves a significant sum of money and has long-term effects on the businesses⁶. Though it has been theoretically argued and demonstrated that capital structure is irrelevant in a perfect market environment-one in which there are no taxes, no transaction

costs, and uniform expectations-other works that assume various market imperfections, on the other hand, suggest that capital structure decisions are relevant because they can affect shareholders' wealth⁷. As a result, the existence of corporate taxes implied that businesses should borrow as much money as they can in order to maximize the interest tax shield and increase their worth⁸.

The idea of capital structure is centered on the ratio of debt to equity that a company uses to finance its assets. One of the most crucial choices made by financial management, the capital structure choice lies at the core of numerous other corporate finance choices. These include of dividend policies, project finance, the issuance of long-term securities, and funding for acquisitions and mergers, among other things⁹.

A corporate financial manager's goal, among many others, is to maximize shareholder wealth by ensuring a lower cost of capital. One of the powerful tools used by management to control the cost of capital is the capital structure. When the cost of capital is at its lowest, the optimal capital structure is reached.

The relationship between the various long-term sources of funding, such as equity capital, preference share capital, and debt capital, is referred to as the capital structure.¹⁰ Long-term debt and equity make up the majority of the capital structure, which represents the company's permanent funding. Deciding on the best capital structure is crucial because it directly affects the company's worth. The ratio of long-term debt to equity that the company maintains is known as its capital structure. Even while the precise ratio of debt to preferred stock and common stock in a company's long-term permanent financing may change over time, most businesses strive to maintain a financing ratio that is close to a

target capital structure. The capital structure's primary goal is to contain the ideal ratio of debt to equity¹¹.

A company's decision on its capital structure comprises selecting a target capital structure, determining the average maturity of its debt, and deciding which specific financing options it will use at any given time. Similar to operating considerations, managers should choose a capital structure that will optimize the company's inherent worth¹².

The capital structure of a company is the combination of debt and equity used to finance the company. The capital structure of an organization has a direct impact on its capacity to meet the needs of its stakeholders. Consequently, this deduction is a crucial truth that we cannot ignore¹³. They also mentioned the three sorts of considerations that go into a firm's decision about its capital structure: those that depend on the company, those that depend on the industry, and those that depend on the economy.

2.1.2 Components of Capital Structure

The following were highlighted as components of capital structure¹³

a) Equity Financing

When describing a company's ownership capital in capital structure elements, equity share capital is utilized. It cannot at any time be removed because it is the company's permanent capital. The majority of the risk is assumed by owners, but they also gain from gains. Their financial investment is the only thing they are liable for.

Popular among investors are equity shares. With equity financing through common stock, you can change your ownership stake in your business by selling or buying common

stock from one or more people or businesses in exchange for a predetermined sum of money.

The sum that each common shareholder has contributed to a corporation is represented by its common equity. The value of the common shares itself is among the most significant aspects of this. However, it also contains additional paid-in capital as well as retained earnings.

The capital is divided into two categories: (1) Contributed capital, which is the cash that was initially invested in the company in exchange for ownership interests or stock; and (2) Retain earnings, which are profits from prior years that the company has retained and used to bolster its balance sheet or finance expansion, acquisitions, or growth.

Unlevered firms are those who don't use debt funding for their business operations. This leads to "business risk," which is defined as the risk that a company's common stockholders would have if the company had no debt¹¹. In other words, it is the risk inherent in corporate operations due to the uncertainty of future operational profitability and capital requirements. If a business doesn't use debt, its return on invested capital will be determined using return on equity. Simply defined, the standard deviation of a leverage-free company's ROE will determine its business risk.

Paid-up capital, share premiums and retained earnings are all considered to be equity. Paid-up capital is the sum of money investors have given a business in exchange for equity. He adds that paid up capital refers to the act of a firm selling its shares to investors directly on the primary market, typically through an initial public offering¹⁴.

Directors may voluntarily establish reserves or a statute may mandate their creation. The surplus obtained from issuing shares at a price higher than their par value is known as a share premium¹⁵.

Last but not least, retained earnings are profits that a firm reinvests in order to expand its operational capabilities and inevitably raise its market value.

b) Debt Financing

In a company's capital structure, debt capital refers to borrowed funds that are being used for operations. Long-term debt is typically thought of as the safest kind because the corporation has years or even decades to come up with the principal while simply paying interest during that period. Debenture capital, which is made up of borrowed capital in capital structure components, is held by the company's creditors. For the benefit of investors, many debenture types are offered. Additionally, banks and financial institutions offer long-term and medium-term loans to organizations. Public deposits, which are defined as any funds received by a non-banking corporation in the form of a deposit or loan from members of the public, including employees, clients, and owners of the company, other than in the form of shares and debentures, can be used to finance debt. A company is said to be "leveraged" when it chooses to use debt financing for its operations because it is exposed to financial risk. Financial risk is the additional risk that the decision to finance with debt imposes on the common stockholders. Financial risk is the possibility that the company's earnings may not be as anticipated due to the financing strategy¹¹.

Additionally, the loan carries a fixed financing obligation, typically in the form of interest, which must be satisfied when it becomes due in order for the shareholders to get a part of the retained earnings. Due to the distinct operating characteristics of many industries and lines of business, the level of debt (financial leverage) that is acceptable in one can be extremely dangerous in another.

Another element of capital structure that has been shown to affect market value is the choice of debt maturity. This is because choosing the improper debt maturity could expose businesses to interest rate changes and potential rollover problems, which would make it more challenging for businesses to take advantage of promising growth possibilities¹⁵.

According to one viewpoint, debt with a shorter maturity period may increase market value since it solves the issues of underinvestment and asset substitution. Another author made the point that managers may forego beneficial investments when companies have too much long-term debt¹⁶. According to the predictions of agency theory and the free cash flow hypothesis, firms with a higher percentage of short-term debt have rising company values. Particularly true for businesses in sectors with fewer agency disputes (such as regulated utilities)¹⁷ Once more demonstrating the reduced reliance on short-term debt as a corrective measure when there is less information asymmetries. Additionally, Chinese companies' capital structures use a disproportionate amount of short-term debt, in contrast to Western nations' debt policies where long-term debt is more typical¹⁴.

On the other hand, debt with a longer maturity has an advantage as well since long-term fixed-rate debt shields the borrower from changes in interest rates.

Additionally, compared to the one-time transaction costs of long-term debt, the costs associated with rolling over short-term debt may be higher¹⁶. However, the notion that industrialized nations use long-term debt more frequently as a result of having better investor protection and credit monitoring is denied, which may help to explain why those nations were probably more severely affected by the current financial crises¹⁸. The ideal debt structure is determined by balancing the agency costs and other costs of debts as a means of addressing the under- and over-investment issues because the debt can have both positive and negative effects on the value of the company¹⁹. Debt will specifically push managers to release funds that they may otherwise have invested in initiatives with negative net present value when enterprises have surplus cash flows. However, if the benefit of approving the project accrues to the creditors without also enhancing shareholder wealth, corporations with outstanding debt may have incentives to reject projects that have positive net present value.

The worth of a corporation is the product of its debt and equity, and this value is entirely reliant on the income stream that the firm's assets generate. The discounted value of the company's shareholders' profits, or net income, is what determines the equity value. Specifically, the equity capitalization rate or anticipated rate of return on equity divided by net income²⁰.

c) Cost of Capital

As was previously said, capital is made up of two parts: debt and equity. When a business borrows money from a lender for a certain period of time with the intent to repay it plus interest, it is doing so in order to fund its operations. The lender is compensated by

receiving interest payments on the loan. With equity financing, shareholders purchase company stock, becoming owners in exchange for a share of the company's profits. Cost of capital, in general, refers to the various expenses associated with the various sources of funding that an organization has access to.

d) Interest (Cost of Debt)

The company had a variety of choices for raising debt, including taking out loans from banks or from the national debt in the form of bonds (debentures) for a predetermined amount of time at a predetermined interest rate.

This measure is helpful for estimating the overall rate paid by the company to use debt financing because the company can employ a variety of bonds, loans, and other forms of debt. Due to the fact that riskier businesses typically have higher loan costs, the measure can also give investors insight into how risky a company is in comparison to others..

The cost of debt is less than the cost of other kinds of financing because lenders often expect lower returns because they assume the least amount of risk among all donors of long-term capital. Additionally, the fact that interest payments are tax deductible significantly reduces the firm's cost of debt.

e) Dividends (Cost of Equity)

Investors who contribute equity capital to the company have a claim to the firm's future payouts since they become a part-owner of the business and because these dividends cannot be anticipated at the outset. Businesses can choose to use their own retained earnings to raise capital. The cost of external equity is the minimum rate of return required by the shareholders on money they supply by investing in new shares in order to

prevent a drop in the equity share's current market price, and the opportunity cost of retained earnings is the rate of return on dividend forgone by equity holders.

Unlike loan capital, which the corporation must eventually repay, equity capital is continuously invested in the business. The two primary forms of equity capital are preferred stock and common stock equity, which comprises of common stock and retained earnings. The most expensive type of equity is often common stock, followed by retained earnings and preferred stock. Additionally, if lenders become concerned about the firm's ability to repay its obligations, a firm that considerably expands its use of leverage may face an increase in the cost of debt.

2.1.3. Determinants of Capital Structure

The previous section explored various capital structure theories with tax advantages, bankruptcy costs, and asymmetric knowledge costs. Previous studies have demonstrated that various factors, such as nation, industry, firm size and age, and others, have an influence on capital structure. Therefore, the management must take into account both the features of the firm and these variables, which are generally connected to the economic environment. In this thesis, several of these factors are employed as criterion for the traits of the firm.

i) Firm Size

The capital structure theory links the firm's size to a number of concepts, including asymmetric knowledge, transaction costs, and accessibility to the financial market²¹.

Other arguments put out for why smaller businesses might acquire less outside funding

and, as a result, have a lower leverage ratio in comparison to larger ones, in addition to the information asymmetry issue, are as follows:

ii) Transaction Costs: Because transaction costs are a function of scale, a smaller firm seeking outside funding will experience higher costs. Meaning that larger businesses may benefit from scale benefits, which lower transaction costs, while seeking outside funding compared to smaller businesses

iii) Market Access: Smaller businesses might not have opportunity to this type of public financing via stock markets (e.g, issuing new share issues) and might be viewed as less reliable because they are not public companies; access to the capital markets as a variable have influence the amount of external financing.

iv) Bankruptcy Costs: In general, a firm's bankruptcy expenses are inversely correlated with its size, meaning that larger enterprises generally incur lower bankruptcy costs than smaller ones. To further explain, the cost of bankruptcy may occur both directly and indirectly. The liquidation return is an example of a direct bankruptcy cost, and the stakeholders' loss of faith in the company's long-term existence is an example of an indirect bankruptcy cost.

iv) Operating Risks: According to one theory, a company's operating risk is inversely correlated with its size, meaning that smaller companies should be more inclined to use debt and outside finance less frequently than larger ones because they perceive their operating risk to be higher.

Larger businesses profit from their scale and diversification because they can borrow money at lower rates and are more resilient to economic downturns than smaller businesses.

As a result, they ought should be able to outperform smaller businesses and produce greater profit as a result.

Large companies are also anticipated to have less volatile cash flows, cheaper agency fees for raising debt or stock, and simpler access to the credit market. In order to benefit from the tax break, large corporations are therefore expected to maintain more debt in their capital structures than do small corporations. Additionally, due to the tension between shareholders and debt holders, smaller businesses tend to have more short-term debt and less long-term debt.

v) Industry

Specific characteristics of each industry may have an impact on how that industry's businesses structure their debt. These might result from the diverse business environments of the various sectors, the level of product market competitiveness, the amount of capital needed in these industries, and the talent mix of the various industries. According to the concept, businesses with specialized products incur more losses in the case of bankruptcy and will thus have lower levels of debt in their capital structures²². Since the distinctiveness might differ from industry to industry, the firm's industry sectors have an impact on leverage.

The capital structure theory also links industry to a number of other elements, including bankruptcy costs, liquidation value, asymmetric information, collateral value, and

macroeconomic industrial trends. Because tangible assets will have a larger liquidation value and less asymmetric information costs, firms with tangible assets may retain more value in bankruptcy than organizations with intangible assets. In relation to liquidity, mention the impact that liquidity has on the industry.

Varied industries demand different amounts of liquidity to manage both operational needs and the firm's rate of return.

2.1.4 Managerial Traits

The decision of a firm's capital structure is heavily influenced by managerial characteristics. Bounded rationality and related decision-maker behaviors are being taken into account in a growing amount of finance research as characteristics of financial phenomena²³.

The behavioral finance study's Upper-Echelon Theory (UET) explanation of this phenomenon suggests that a financial leverage may influence by manager's personal traits²⁴.

According to UET, management background qualities or attributes assess organizational outcomes, planned decisions, and performance levels²⁵. According to the theory, the personal traits of the decision-makers, such as tenure, age and expertise, are more significant strategic measures that are more complex in decision. The UET principle acknowledges that senior managers' various traits, including age or professional experiences, influence their decisions on strategy and structure and that these decisions have a direct impact on the firm's strategic choice and organizational performance²⁶.

The UET also underlines that decision-making by leaders with restricted rationality is influenced by their cognitive, social, and physiological traits. How upper echelon qualities impact company strategic decisions is illustrated in the diagram below.

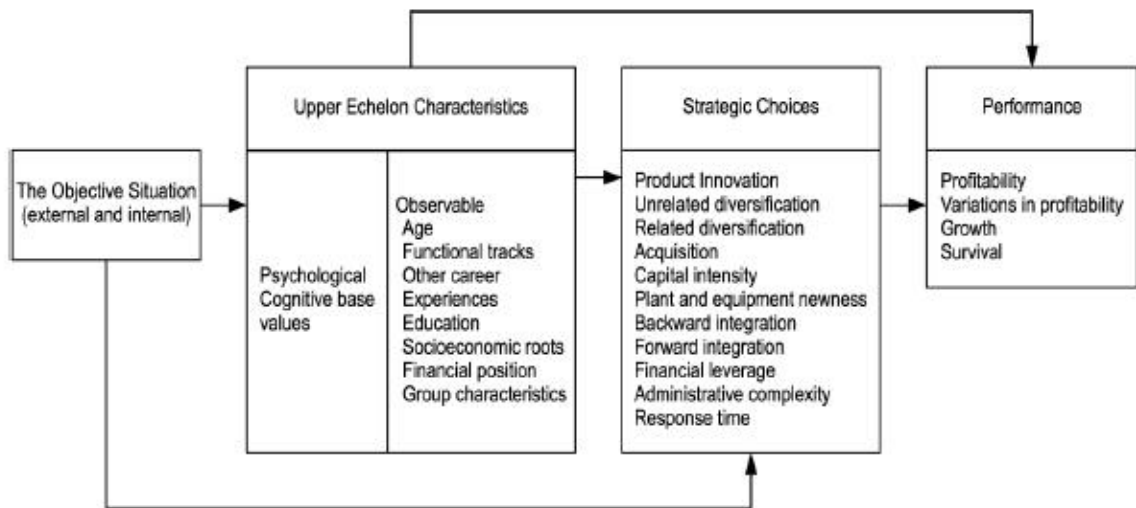


Fig.2.1 Upper Echelons Perspective of Organizations

Source²⁵

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Numerous studies have been conducted on the UET to investigate the connection between organizational outcomes including innovation, R&D investment, and cash holding and leader demographics^{27 28,29}. The empirical value of these studies, particularly in terms of the connection between a leader's cognitive, social, and psychological traits and capital structure decision, is still largely unclear.

2.1.4.1 Education and Capital Structure Decision

In UET, CEO educational is reflected in the features of their organizations²⁹. According to the argument, CEOs with more education are less risk-averse and more receptive to new concepts, innovations, and investment opportunities. Agree that greater education levels have a favorable impact on a company's ability to leverage its finances. It was found a strong correlation between a firm's leverage decision and the CEO's education level.²⁵

2.1.4.2 Managers' Gender and Capital Structure Decision

In addition to CEO duality, gender is another important factor in describing a CEO trait. Due to a number of factors, such as discrimination and a higher risk aversion, women-owned firms are less likely to employ financing³⁰. The outcome is in line with those who concur that companies led by female CEOs are more likely to survive and have lower leverage and less variable earnings than companies led by male CEOs³¹. CEO gender has a considerable impact on a company's decision to use leverage²⁵.

Gender differences in risk attitudes and behavior, as well as their effects on capital structure, have long been studied in the literatures of economics and psychology..^{32,33,34}.

n corporations, women currently hold a greater proportion of executive roles. Due to this increase, researchers are now examining how gender influences³⁵.

Between male and female executives, there are consistent variances in the financial reporting policies they choose. In comparison to their male colleagues, female CFOs take a more conservative approach to financial reporting. The firm's accounting conservatism will either rise or decrease after the switch from men to women³⁶. Laboratory testing and field research are frequently utilized in economic literature to discuss gender variations in individual business decision-making. For instance, report significant differences in attitudes toward gambling between male and female college students using abstract gamble experiments. Experiments in a contextual environment have produced a mixed bag of findings, nevertheless. It was discovered that there is no discernible change in their participants' risk attitudes regarding capital structure decisions³⁷.

The results of field research also show that men and women behave differently when it comes to taking risks. Women are more risk-averse than men, for instance, when it comes to their wagering choices on horse and dog races. When choosing investments for household holdings, single women are less risk-averse than single men, according to data from the Survey of Consumer Finances³⁸. Another study looked at how assets in defined contribution plans were allocated by gender, and they discovered that women are less likely than males to store their assets primarily in stock³⁹.

Mutual fund managers are the focus of many studies that contrast the performance and investing preferences of male and female fund managers in the managerial setting.. They discovered that, on average, female fund managers tend to be less risk-taking when

making investment decisions than male fund managers⁴⁰. More recent studies start to look into whether the gender of company directors or executives influences corporate decision-making. The study looks into the impact of CFO gender on key business choices. According to the research, companies run by female CFOs see slower growth than those run by male CFOs. Additionally, female CFOs are less likely to issue debt and to make big acquisitions. Additionally, when women executives are in charge of the capital structure, it adjusts more slowly than when a men CEO is in charge³⁵.

The cost and profits of mergers and acquisitions are influenced by the CEO gender of corporate directors. According to the study, bidders who had female CEOs paid a significantly lower premium than bidders who had male CEOs. They also discovered that bid premiums are inversely connected to the number of female directors on the board. The study looked at how senior business leaders behaved when trading inside information. They discovered that while both male and female CEOs benefit from insider trading, males earn around twice as much as females and engage in more trading. They discovered that the differences in inside trading behavior between men and women cannot be solely attributed to risk aversion⁴¹.

The market's reaction to new nominations of female executives or directors is another topic of recent research, as is how the sex of senior executives affects business performance and investment-cash flow sensitivity. For instance, the study examined how the presence of women on top management teams of IPO firms affected the organization's short- and long-term performance. According to the data, having female

executives is associated with an organization's short-term performance, three-year stock price growth, and growth in earnings per share⁴².

Examined how the sensitivity of investment-cash flow is affected by the gender of CEO executives. They found that male CEOs' company investments are more vulnerable to cash flow than those of female CEOs, particularly in firms that depend heavily on stock. The authors investigated if gender had any impact on the IPO under-pricing. Their research does not reveal any appreciable variations in underpricing between IPOs headed by male and female executives.

Furthermore, they discovered no appreciable variations in business characteristics between IPOs with female and male leadership⁴². The study looked at how investors respond when female CEOs are appointed. They discovered that shareholders react more unfavorably to the appointment of female CEOs than to that of male CEOs. Additionally, if female CEOs are elevated within the company, the negative market response to female executive hires is lessened⁴³. The study did not, however, discover a sizable wealth effect of adding new female directors to the board⁴⁴.

2.1.4.3 Experience and Capital Structure Decision

The UET goes on to say that the manager's earlier experiences also have an impact on management decision-making. It is suggested that prior experience broadens a CEO's understanding of markets and helps him or her spot an opportunity⁴⁵. Furthermore, it is agreed that the CEO's prior experiences will increase the effectiveness and longevity of the company. In other words, a firm's strategic plan and decision-making may be significantly impacted by the experience and background of top managers⁴⁶.

he study demonstrates that the decision to use financial leverage is highly influenced by the CEO's prior experience²⁵.

2.1.4.4 Tenure and Capital Structure Decision

Referring to the UET, it can be shown that the length of the CEO's tenure has a big impact on decisions about financial leverage. The new CEOs are expected to have a stronger external emphasis and be more risk cautious when making financial decisions, therefore they want less debt⁴⁷. As their tenure grows, CEOs gain confidence and take on more risks when making financial decisions²⁹. There is a considerable correlation between the length of the CEO's term and the choice of financial leverage according to²⁵.

2.1.5 Firm Characteristics and Capital Structure Decision

Firm characteristics are elements that management has a significant amount of control over. Firm performance, structure and monitoring are among the characteristics of the company.

A company's size, leverage, liquidity, revenue growth, asset growth, and turnover are some of its features. Other factors include the board's composition, the company's age, dividend payout, profitability, access to financial markets, and growth prospects⁴⁸. Firm characteristics are attributes or features unique to the company that may have a favorable or negative impact on its success^{49,50}.

Variables are present. Three categories of explanatory disclosure traits concerning company traits can be identified, the elements affecting the market, performance, and structure⁵¹. According to the study, there are a number of fundamental firm characteristics that vary systematically amongst firms. Previous studies have demonstrated that

companies participating in earnings management activity are frequently smaller in size, less profitable, growing more slowly, and using more leverage than is typical for their industry. When operations are performing poorly, managers typically increase profits; however, if operations are performing horribly, some businesses may actually cut profits further, a practice known as the "taking bath" method⁵².

Seven independent variables are chosen as proxies for company characteristics based on prior research, data availability, and relevance to the socioeconomic situation of Nigeria. Business size, leverage, board composition, institutional shareholding, profitability, liquidity, and firm growth are some of these factors.

2.1.5.1 Firm Size and Capital Structure

Firm Size has taken center stage in empirical corporate finance studies and is largely acknowledged as one of the most crucial factors⁵³. Studies have shown conflicting results regarding the impact of size; some find it to be significant, while others find it to be minimal or nonexistent. More recently, some studies revealed that the relationship between size and financial performance is negatively mediated by indebtedness. Size of a company is projected to have a favorable effect on debt level⁵⁴.

In the event of bankruptcy, a company with more tangible assets would have more collateral assets to pay off debt, which would increase its capacity to attract new debt. Large companies are less likely to go bankrupt, according to the evidence of a positive association between company size and the likelihood of bankruptcy from their research of the global data.

Large companies are more likely to have a greater agency problem. The management of a large company's operations would be more challenging, particularly if the company diversified its business lines. Larger companies have a lesser chance of bankruptcy because they are more diverse, which decreases their costs associated with financial hardship and gives them better access to capital markets. In order to benefit from the lower costs of financial distress and the lower interest rates offered by financial institutions, larger enterprises would therefore use more debt in their capital structure. A substantial inverse association between size and capital structure was discovered in the study on the factors determining the capital structure of agricultural enterprises in Kenya⁵⁵.

Additionally, the research discovered a significant negative correlation between size and capital structure in each of their individual studies^{56,57}. Though, the study did find a weak correlation between size and debt ratio⁵⁸. Size has a negative, considerable impact on capital structure, according to other writers that studied the factors determining the capital structure of Nigerian enterprises^{59,60}.

On the other hand, they discovered in their individual research a statistically significant positive association between business size and capital structure^{61,62,63}. They discovered that business size was positively and strongly connected to capital structure in their respective research using identical methodologies^{64,65,66}. They discovered in earlier studies that business size had a favorable and significant effect on capital structure^{67,68}.

Larger, more well-known companies typically have better access to the stock market and capital markets than their smaller competitors. This is so because a larger firm has a

significantly lower default risk than a smaller one. Larger companies typically earn higher credit ratings, which contributes to their superior reputation in the debt market. Greater security makes financial institutions more inclined to lend money to larger businesses, and these funds are typically obtained at cheaper interest rates than those offered to smaller businesses. Small businesses are unable to access long-term finance markets since their growth potential typically outweighs their available assets for use as security⁶⁹.

Smaller businesses will borrow less since they run a bigger risk of failing. Smaller businesses also frequently issue shares or employ bank loans for short-term financing. The smaller businesses will ultimately face greater capital costs as a result of this. However, there is disagreement about theoretical predictions regarding the connection between a firm's size and capital structure. An adverse association is predicted given the information asymmetry discussed above. Larger companies will have more capital accessible to them since there is less information asymmetry and their equity is more appealing to outside investors.

But according to the bankruptcy theory, it is anticipated that a firm's size and capital structure will be closely tied. Larger companies have a lesser chance of bankruptcy because they are more diverse, which decreases their costs associated with financial hardship and gives them better access to capital markets. In order to benefit from the lower costs of financial distress and the lower interest rates offered by financial institutions, larger enterprises would therefore use more debt in their capital structure.

For a company to be profitable, its assets must provide income, which is necessary for investments and fulfilling immediate financial obligations. There is strong evidence that firm size plays a key role in determining firm profitability. Stable businesses choose to diversify their product offerings and investment portfolios to lower their risk of failure. Consequently, a positive relationship between corporate scope and leverage is anticipated⁷⁰.

Institutional stockholders choose to invest heavily in stable organizations because they believe they have a lesser chance of bankruptcy since large corporations have access to the resources they require and the ability to reduce the risks associated with their stock investment. As a result, they are less vulnerable to financial hardship and insolvency⁷¹.

Because they deal with heavy products, large businesses receive discounts from their suppliers, which lowers their operating expenses and boosts their profitability. The study also confirmed the idea that larger banks are more profitable than smaller ones. They have a big consumer base that draws in new clients while keeping old ones⁷². Due to their high shareholder trust and financial stability, these banks have large asset bases, a high client churn, and easy access to credit⁷³.

2.1.5.2 Board Composition and Capital Structure Decision

The ratio of independent executive directors to non-executive directors on the board is known as the board composition.

The relationship between board size and capital structure has been the subject of numerous research, although the findings were highly inconsistent. They discovered, for instance, a favorable correlation between board size and capital structure choices. A

larger board could provide more expertise and information to the company and may be better able to supervise, which could ultimately result in higher returns^{1,74}.

The effectiveness of control has a decreasing relationship to board size. The board of directors' ability for monitoring is increased when a new member is added. The marginal cost of adding a new member in terms of assuming control and information disclosure, however, balances this out. In this instance, as board members are added, the control and efficacy of the board deteriorate, and the marginal cost rises. A large board's performance is affected negatively, in fact. Along with making coordination and communication issues worse, it also makes it harder for directors to supervise management. It results in an increase in production information with low quality and manager manipulation of earnings⁵¹.

2.1.5.3 Institutional Shareholding and Capital Structure Decisions

Institutional investors raise a lot of money from the general public and put it into the capital of big businesses. Their ownership of a company's capital can lower agency fees. Institutional investors may pressure managers to strengthen the capital structure in cases when such participation is crucial. Institutional investors' participation might be viewed as a governance instrument. Institutional investors are in fact driven to actively participate in the management of the company due to the size of their investments, and they may also be driven to keep an eye on managers⁵¹. According to the studies, if a discussion of capital structure is not combined with a discussion of a company's ownership structure, it is pointless. There is a claim that a company's ownership structure will impact how much its capital structure affects its performance^{75,75}. In fact, it is

thought that businesses run by owners would have the best capital mix and ultimately benefit from it. This shows that, absent certain management traits, the choice of a certain capital structure would have little impact on a firm's performance^{75,75}.

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2.1.5.4 Profitability and Capital Structure

The literature has made it clear that one of the main concerns of management specialists, investors, and researchers is the profitability of business organizations. As a result, profitability is the most significant and trustworthy measure of corporate growth because it provides a comprehensive indication of a company's capacity to increase its level of income⁷⁷. Profitability therefore becomes one of the most important goals of financial management because one goal of financial management is to maximize corporate owners' wealth and profitability, which in turn signals greater financial performance.

Profitability measures how effectively management uses all of its resources to produce profits. Since a company's profitability can be used to forecast its future earnings, shareholders are concerned about it. Thus, while making investment selections, outside investors will use the firm's profitability in their research. According to conventional financial literature, successful businesses can take on greater debt because their exposure to insolvency and financial crisis risks is reduced.

According to the study, more lucrative businesses can borrow more money, and lenders who give debt will be more eager to do so because their risk of default is lower than that of less successful businesses. There is a larger incentive to use more debt to take advantage of debt interest tax shielding when profitable businesses are also required to pay higher tax rates. The conclusions of the link between profitability and capital structure, both theoretical and empirical, are debatable. As a result of their exposure to

lower risks of bankruptcy and financial difficulty, the findings from earlier studies are consistent with both the trade-off hypothesis and the pecking order theory⁷⁸.

The majority of research discovered a link between profitability and leverage that was negative, supporting the pecking order theory that says businesses prefer internal finance to external borrowing.⁷⁹ This inverse link is seen in both industrialized and developing nations. He also stated that corporations raise money in a particular order because they prefer internal financing over external borrowing for funding investments. Businesses prefer debt finance versus equity funding when internal resources are insufficient⁷⁹.

According to this hypothesis, businesses that are more profitable will utilize internal resources (retained earnings) rather than borrowing money as much. High-retained-earnings companies typically steer clear of debt⁸⁰.

This suggests that profitability and capital structure have a bad relationship. According to the report, this may be because issuing equity has higher expenses. The capital structure of a company should be significantly influenced by its historical profitability and the quantity of retained earnings, yet research has demonstrated a positive correlation between profitability and leverage, supporting the trade-off theory⁸¹. Firms with high profitability imply higher debt capacity and consequently less risk for debt providers^{82,83}.

Therefore, because more lucrative companies are better able to repay their debts, debt holders will be more ready to lend them money. Profitable companies will therefore use debt to benefit from the tax shelters. The fact that interest payments on debt are tax deductible, creating a tax shield, is the most significant benefit of debt. When businesses use debt capital rather than their own equity capital, they are able to pay lesser taxes than

they should because of this tax shield. This indicates that successful businesses can use more leverage since they can benefit from tax shelters. To reduce agency expenses, profitable companies could also use more debt in their capital structure. A number of researchers have also looked into how profitability affects capital structure. The study that discovered a bad association between profitability and capital structure is one of these investigations^{55,57,84}.

In a related study, the study in Pakistan reported a similar finding, that profitability had a negative impact on debt ratio⁵⁸. The author observed a similar statistically negative association between profitability and capital structure⁶¹. The research also showed that total leverage ratio is strongly and negatively associated to profitability⁶⁴. In addition, a significant inverse association between profitability and the debt-to-equity ratio was discovered while researching capital structure factors in Indonesian Stock Exchange companies⁵⁶.

Studies were undertaken on, respectively, the factors affecting capital structures in listed manufacturing businesses and the sugar industry in India. Additionally, their research revealed a substantial negative link between profitability and capital structure^{85,86}.

However, among other empirical studies, the study that looked at the factors affecting capital structure in the Jordanian industrial sector showed a favorable correlation among profitability and capital structure. The analysis discovered a strong correlation among profitability and the debt -equity ratio. Another study used a descriptive research design to look at the factors influencing capital structure in Nigeria. The findings indicated that profitability and capital structure have a negligible positive association⁵⁹.

The study examined the factors that determine the capital structure of listed companies in Nigeria and discovered a favorable correlation between profitability and leverage⁸⁷. Studies, however, refute this assertion by showing that capital structure affects a firm's success^{88,89}.

2.1.5.5 Firm Growth and Capital Structure

Past empirical write up has used numerous indicators of company growth in its measurement since there is insufficient agreement on how firm growth should be measured. Instead, this study will measure firm growth as the percent change in revenue over the course of the study, giving us the opportunity to comprehend how the firm has performed throughout these years in terms of its revenue expressed in percentage terms^{90,91}. Since rising firms prefer internally generated money, the trade-off hypothesis predicts a negative link between firm growth and leverage. According to the report, businesses with growth prospects typically keep their profits rather than distributing dividends, which enables them to fund their projects internally. The pecking order theory, however, anticipates a favorable correlation between leverage and growth. This is due to the fact that excess investment must result in rising debt levels and financing requirements for businesses, especially when retained earnings are insufficient to cover these costs.

For instance, the author said that internally generated money can occasionally not be enough during a growth phase and that this might lead a corporation to increase its borrowing⁹². This study also discovered evidence that firm growth is positively connected with short-term debt, and it made the case that businesses with strong growth need

working capital the most. Since businesses may be ready to shoulder the burden of long-term debt when there is a chance for a profitable investment, particularly when their internal source of finance is limited, this is likely to happen in the nation⁹³.

2.1.5.6 Tangibility and Capital Structure

Debt level is projected to be positively impacted by a company's tangibility. In the event of bankruptcy, a company with more tangible assets would have more collateral assets to pay off debt, which would increase its capacity to attract more financing¹. Higher tangibility in a bankruptcy situation reduces the risk to a creditor and raises the value of the assets. This prediction of a favorable relationship between tangibility and leverage is supported by numerous empirical research, including ⁹⁴. On the other hand other studies found a significant negative correlation between tangibility and capital structure^{56,57,84}. In a similar vein, the experiments have each revealed a finding of a negative association between leverage and tangibility^{60,61}.

On the other side, the study looked at how firm characteristics affected the capital structure of Bangladeshi banks from 2008 to 2012. The findings indicated a substantial negative association between tangibility of assets and the debt to asset ratio⁹⁴. However, according to a different study, tangibility has a negligible impact on debt ratio in the relevant studies⁵⁸. However, the studies discovered that tangibility had beneficial but negligible effects on capital structure^{60,61}. However, a different study discovered a statistically significant positive correlation between leverage and asset tangibility⁶². Studying the key variables that influence the capital structures of the listed manufacturing enterprises. A substantial negative association between tangibility and

both short-term and long-term debt was found by the study⁸⁶. The author opines that tangibility is positively and significantly related to capital structure⁶⁴. Capital structure factors in listed companies were looked at in a study of the Tehran Stock Exchange and a few stock exchanges in emerging countries. Another study found that tangible goods considerably lower the debt ratio in both Tehran and developing countries⁶⁶. According to the authors, leverage and tangibility⁵⁹. The relationship between tangibility and leverage was shown to be positive in the insurance sector but negative in the banking sector⁶³.

2.1.5.7 Firm Age and Capital Structure

This is a control variable as well. The potential age of a company is projected to have a favorable effect on debt level. A business with a longer history of operation has greater potential for revenue development and is therefore more creditworthy to take on additional debt. This is used in capital structure models as a common metric of reputation. Age and debt are positively correlated because as a company operates for a longer period of time, it establishes itself as an ongoing enterprise and may therefore take on more debt. Before approving a loan, banks typically assess an entrepreneur's creditworthiness since they typically feel that they will have great faith in very hazardous ventures that promise high profits⁹⁵.

The relationship between business age and capital structure has also been the subject of previous studies, however the results have been contradictory. As an illustration, this research discovered a significant connection between age and capital structure⁵⁵. In a similar line, a study was done on the capital structure and firm characteristics of listed paint and chemical companies in Nigeria. The study discovered, among other things, that

the capital structure and the firm's age had a positive, substantial association⁹⁶. These writers similarly looked into the factors that determine the capital structure of listed agriculture enterprises in Nigeria. The study demonstrated an adverse correlation between the firm's age and the short-term debt ratio. While a substantial and favorable correlation between age and long-term debts was found at a 10% level of likelihood⁹⁷.

Another study, however, examines the effects of corporate traits on capital structure in Egyptian insurance firms between 2006 and 2011. According to the study, there is a bad correlation between business age and capital structure⁹⁸.

The author looked into the factors that affect capital structure in Russia and the Baltic States. According to the study, overall leverage in Latvia and Lithuania was strongly and negatively correlated with firm age⁹⁹. In addition, this study discovered that age significantly and negatively affects capital structure⁶⁷. Similar findings were made by this scholar, who discovered that age has a serious detrimental effect on the debt ratio⁶⁰. The report discovered a substantial inverse relationship between firm age and capital structure in a study on that capital structure in small manufacturing firms¹⁰⁰.

2.1.5 .8Inflation

This is macroeconomic variable and it examines the rate at which inflation affect capital structure decision. Risen in inflation tends to make firms borrow instead of raising equity and high GDP growth makes firms to raise more equity¹⁰¹.

These authors found that inflation has a favorable impact on leverage, but for some details of their model, this effect becomes irrelevant¹⁰².

2.1.5.9 Gross Domestic Product (GDP)

Businesses that operate in nations with higher real GDPs are more prosperous economically and so tend to issue more debt than equity^{103,104}. The authors of this study claimed that the correlation was negative and that businesses often produce better net earnings and more revenues at times of economic apex. As a result, there is now a chance to fund more investments using internal resources rather than by issuing shares or debt¹⁰⁵.

2.2 Theoretical Review

Several theories have been used in examining the relationship between the firm characteristics, managerial traits and capital structure decision of a firm, these theories include the Trade-off theory, the Modigliani and Miller Hypothesis, Pecking Order theory, Agency Theory, static trade-off theory, Dynamic Trade-off Theory and the Market timing theory. Each of these theories is discussed here.

2.2.1. Trade-off Theory

The trade-off theory was introduced by¹⁰⁶. According to the theory, when the benefits of debt are weighed against the expenses of debt financing, there is a target debt level that maximizes corporate value. Tax deductions for interest payments and a reduction in free cash flows are benefits of debt, which shows that a high gearing ratio can increase corporate value. On the other side, a high gearing has an impact on agency expenses and the firm's financial situation. The trade-off hypothesis states that a company can borrow as much as it wants, as long as the tax benefits of doing so outweigh the costs associated with a higher risk of financial crisis¹⁰⁶.

According to the trade-off theory of capital structure, a business decides how much debt and equity financing to use by weighing the advantages and disadvantages. The original form of the concept was based on balancing the benefits of debt over bankruptcy in terms of tax savings with the dead weight costs of bankruptcy. Frequently, agency fees are added to the balance¹⁰⁶. The theory's explanation of why firms often have a mix of debt and equity financing is one of its key goals. It claims that borrowing money has benefits, such as tax advantages, but that it also has drawbacks, including costs associated with bankruptcy and non-bankruptcy costs (such as staff turnover, supplier demands for unfavorable terms of payment, bondholder/stockholder disputes, etc.). When determining how much debt and equity to utilize for financing, a company that is maximizing its overall value would focus on this trade-off because the marginal benefit of further increasing debt drops as debt increases while the marginal cost increases. According to the trade-off hypothesis, businesses decide on their ideal level of debt by weighing the advantages and disadvantages of borrowing money.

The advantages of debt include the decrease of agency costs of equity obtained by surplus free cash flows and the tax deduction of interest expenditures. When there is an excessive amount of debt, it might result in increased interest rates and direct or indirect bankruptcy charges¹⁰⁷. The marginal benefit and marginal cost of an additional unit of debt must be equal for there to be an ideal level of debt, according to this theory. According to the trade-off hypothesis, a business decides how much debt and equity financing to use by weighing the advantages and disadvantages. Due to the ability of trade-off theory to account for bankruptcy costs, an ideal capital structure must be attained. It explains that

there is a benefit to borrowing money (the tax benefit) and a drawback to borrowing money (the bankruptcy costs and the financial distress costs of debt). When deciding how much debt and equity to utilize for financing, a corporation that is maximizing its overall value will pay attention to this trade-off because the marginal benefit of additional increases in debt drops as debt increases while the marginal cost increases. According to empirical evidence, this theory could explain changes in D/E ratios between industries, but it cannot account for variations within a single industry¹⁰⁸.

Various authors refer to a series of connected theories as the "trade-off hypothesis." In each of these theories, a business decision-maker weighs the advantages and disadvantages of various leverage programs. It is frequently thought that an internal solution is reached to achieve a balance between marginal costs and marginal gains.

The Modigliani-Miller theorem controversy gave rise to the first iteration of the trade-off theory. The original irrelevance gained an advantage when corporate income tax was included since it protected earnings from taxation.

This implies 100% debt financing because the firm's objective function is linear and there is no debt offset cost. Myers' concept of the trade-off merits examination in a number of ways. The target cannot be directly observed, to start. If a structure is added, it might be inferred from the evidence. That framework is added in various ways in several works.

Second, contrary to what the theory suggests, the tax system is considerably more complicated. Different inferences about the aim can be drawn depending on whether tax law provisions are included. A helpful review of the literature on the consequences of taxes is provided by this author⁷⁰.

Third, expenditures associated with bankruptcy must represent transfers between claimants rather than deadweight costs. It matters a lot what these charges are like. An insightful examination of bankruptcy costs is provided here¹⁰⁹.

Fourth, for the analysis to be valid, transaction costs must have a particular shape. The marginal cost of adjusting must rise when the adjustment is larger for the adjustment to be gradual rather than abrupt.

2.2.2 Pecking Order Theory

The pecking order theory of capital structure as introduced¹¹⁰. This is one of the most well-liked concepts in corporate leverage. It goes against the idea that companies should have a particular ratio of debt to equity financing to reduce their cost of capital. The idea holds that when a firm is seeking for ways to finance its long-term investments, it has a clearly defined order of preference when it comes to the sources of financing it choose to use. Priority should be given to using internal capital, or the retention of earnings, before turning to debt and outside equity. He argues that as businesses become more successful, they will borrow less because they will have enough internal capital to finance their investment plans. He continues by saying that a company should look for external financing when its internal resources are insufficient, especially in the form of bank loans or corporate bonds. The ultimate and least desirable source of funding is the issuance of fresh equity capital once internal, bank, and corporate borrowing as well as corporate bonds have been exhausted. According to the Pecking Order theory, which aims to account for the costs of asymmetric information, businesses prioritize their sources of funding (from internal financing to equity) in accordance with the principle of

least effort or least resistance, with equity raising being reserved as a last resort. Thus, internal resources are used first, followed by the issuance of debt when they are depleted, and the issuance of equity when it is no longer practical to issue additional debt¹¹⁰.

The pecking order theory says that organizations exhibit a clear preference for employing internal finance (as retained earnings or extra liquid assets) over external finance, rather than starting from an ideal capital structure. Firms may or may not obtain external funding to finance investment possibilities if internal resources are insufficient, and if they do, they will select the various external finance sources to minimize additional costs associated with asymmetric knowledge.

The latter costs essentially reflect the "lemon premium" that outside investors want in exchange for the market's typical firm's failure risk. The order of funding as a result is as follows: internally generated funds come first, followed by low-risk debt financing and share financing, respectively¹¹¹. The authors asserted that when managers issue equity rather than riskless financing, outside investors logically devalue the firm's stock price. Managers steer clear of equity wherever possible to avoid this discount¹¹².

According to the Myers and Majluf model, managers will follow a pecking order, exhausting internal resources first, then risky debt, and ultimately equity. In the absence of investment prospects, businesses keep their profits and accumulate extra cash to prevent the need for future external financing. The market-to-book ratio is used by the pecking order hypothesis to evaluate investment opportunities. With this interpretation in mind, both of these writers point out that the static pecking order model is difficult to reconcile with a contemporaneous relationship between the market-to-book ratio and

capital structure. The static version's iteration also hypothesizes that times of abundant investment possibilities will often push leverage up toward a debt capacity. Results, however, imply that such periods typically push leverage lower and that high past market-to-book actually aligns with high past investment^{112,113}.

Both the trade-off theory and the pecking order are supported by empirical data. Both of the capital structure theories, the pecking order and the trade-off theory, are supported by empirical testing to determine which theory is a better predictor of actual capital structures¹¹⁴. The Pecking order theory is founded on the asymmetric informational supposition that corporate managers are better informed than outside investors about the prospects, risk, and value of their organization. The hypothesis explains why debt is regarded as the most alluring external finance alternative and why internal finance is significantly more common than external finance.

The notion holds that businesses prefer to use internally generated cash flows to fund their projects. Debt will be used when this is used up, and after debt is used up, further equity will be issued. According to the hypothesis, businesses with high profits may borrow less money than other businesses since they don't need to raise money from outside sources and because debt is the least expensive and most alluring external choice when compared to other capital raising strategies.

2.2.3 Agency Theory

According to the theory, "An agency relationship is a contract where one or more people (the primary) employ another person (the agent) to perform specific services on their behalf and entails delegating some decision-making authority to the agent"¹¹⁵. The

issue is that managers' interests and shareholders' interests aren't always aligned, and in this situation, the manager in charge of running the company situation, the manager in charge of running the company is more likely to focus on advancing his own objectives than maximizing profits for shareholders.

This means that instead of maximizing returns to shareholders, managers will use the surplus free cash flow available to further their own interests¹¹⁶. Therefore, the major challenge for shareholders is to ensure that management do not exhaust free cash flow by investing in initiatives with a negative or unprofitable net present value (NPV). Instead, these cash flows ought to be distributed to the shareholders in the form of dividends¹¹⁶.

2.2.4 The Modigliani-Miller Theorem

The theory of business finance in a modern sense starts with the capital structure irrelevance hypothesis originated by the Modigliani-Miller Theorem¹¹⁷. There was no widely acknowledged capital structure theory prior to them. Beginning with the presumption that the firm has a specific set of anticipated cash flows, Modigliani and Miller proceed. A corporation does nothing more than divide the cash flows among the investors when it chooses to finance its assets with a particular ratio of debt to equity. Leverage can be produced at home because it is anticipated that firms and investors would both have equal access to financial markets.

Any leverage that was desired but not provided by the firm may be erased, and any leverage that the investor did not seek but that the firm assumed may be provided by the investor. Thus, the firm's leverage has no bearing on its market value.

Their essay subsequently generated both clarity and debate. Theoretically, there are numerous situations in which capital structure irrelevance can be demonstrated. The two categories of capital structure irrelevance propositions are essentially distinct. The traditional arbitrage-based irrelevance arguments offer scenarios where investor arbitrage maintains the firm's value irrespective of its leverage. Important contributions include works that are independent of the original Modigliani and Miller paper¹¹⁷. According to the second irrelevance proposition, "given a firm's investment program, the dividend payout it decides to implement will have no bearing on either the stock's present share price or the total return to its shareholders"⁷. In other words, neither decisions regarding the capital structure nor the dividend policy matter in a perfect market. The 1958 study sparked significant investigation on showing irrelevance either theoretically or empirically. The Modigliani-Miller theorem has been demonstrated to be false in a number of situations by this research.

Taxes, transaction costs, bankruptcy costs, agency conflicts, adverse selection, inseparability between finance and operations, time-varying financial market possibilities, and investor clientele effects are some of the most often employed components. Other models employ different components from this list. The fact that there are so many distinct elements available explains why so many different theories have been put forth. To discuss them all would exceed the scope of this study significantly.

The author gave a summary of this theory's advancement as of 1991. The Modigliani-Miller irrelevance hypothesis is challenging to evaluate empirically¹¹⁸.

We cannot build a structural test of the hypothesis by regressing firm value on debt because debt and firm value are both conceivably endogenous and driven by other factors such as profitability, collateral, and expansion possibilities. Although the existence of quite solid empirical relationships between a variety of variables and corporate leverage does not prove the theory, it does make it seem implausible to describe how actual businesses are funded.

The following justification has been used frequently: "The Modigliani-Miller theorem gives a means of uncovering reasons why financing may matter, even though it does not provide a realistic explanation of how organizations finance their operations." This explanation offers a fair interpretation of most of corporate finance theory.

2.2.5 Static Trade-Off Theory

According to the static trade-off theory, businesses choose their ideal capital structures by weighing the advantages and disadvantages of using debt and equity. The advantage of a debt tax shield is one benefit of using debt. The expense of possible financial difficulty is one of the drawbacks of debt, particularly when the organization relies on excessive amounts of debt. The tax gain and the downside of a higher risk of financial trouble are already traded off as a result of this. The usage of debt and equity, however, comes with additional costs and advantages.

Agency charges are another significant cost component. Agency costs emerge from conflicts of interest between the numerous stakeholders of the organization and because of ex post asymmetric information^{115,116}.

As a result, the static trade-off theory with agency costs assumes that a corporation chooses its capital structure by balancing the tax benefits of debt against the costs of financial hardship from having too much debt as well as the agency costs of debt against the agency costs of equity. Under the trade-off approach, other more cost considerations have been proposed, and discussing them all would take too much time. This discussion concludes with the claim that a key finding of the static trade-off theory is that firms target their capital structures, meaning that if the actual leverage ratio differs from the ideal one, the firm will adjust its financing in a way that returns the leverage ratio to the ideal level.

2.2.6 The Dynamic Trade-off Theory

Dynamic trade-off theory was introduced¹⁷. The theory investigates the impacts of taxation from the standpoint of public finance. In order to build models that take time into account, it is necessary to mention a number of factors that are ordinarily overlooked in single-period models. The functions of expectations and adjustment costs are particularly crucial. The proper financing choice in a dynamic model often depends on the financing margin that the company projects for the following period. In the upcoming quarter, some businesses plan to make payments while others plan to raise money. If money needs to be raised, it might be done through debt or equity. A business often combines a number of these activities.

Stiglitz took the extreme step of assuming away uncertainty, hence his model is not a trade-off theory. The analysis includes continuous time models without transaction costs,

but with uncertainty, taxes, and bankruptcy costs. Because businesses can quickly and cost-effectively rebalance after negative shocks, they retain high debt levels in order to benefit from the tax breaks.

Deferring leverage choices to the following period can also take into account the option values encoded in the decision using dynamic trade-off models. It should be noted that a company with minimal leverage now has the choice to increase leverage.

According to their presumptions, the potential to increase leverage in the future reduces the currently ideal level of leverage¹¹⁹. Again, if firms are forced to finance optimally only sometimes due to transaction costs, the majority of enterprises' debt levels will frequently depart from the ideal. According to the model, the firm's leverage reacts more to long-term value changes than it does to short-term equity swings.

In dynamic models, some concepts are comparatively universal. What is expected to be the best financial decision throughout the following period determines what is best today. The best course of action in the upcoming term may be to raise money or disperse it. It may be best to raise new funds through debt or through equity if you're doing so. In each situation, what is anticipated to be ideal in the following time will help identify the pertinent comparison for the company in the current period..

Dynamic trade-off model research is still in its infancy, therefore conclusions about its outcomes must be taken with some caution. Our understanding of path dependency, profits, the role of retained earnings, and mean reversion has already undergone a fundamental shift as a result of this work. The trade-off class of models

therefore seems to be considerably more promising currently than it did even a few years ago¹¹³

2.2.7 The Market Timing Theory

According to the market timing theory of capital structure, businesses time the issuance of new stock and the purchase of their own shares to take advantage of perceived overvaluation and undervaluation, respectively. So, changes in stock prices have an impact on the capital structures of companies. There are two variations of timing the equity market that result in comparable capital structure dynamics.

In the first, rationality is assumed for economic agents. Assumptions are made that businesses will immediately issue equity following a favorable information release, which lessens the issue of knowledge asymmetry between the company's management and stockholders. Stock price growth and a reduction in information asymmetry are associated. Because of this, companies create their own timing opportunities. The second theory contends that economic agents are irrational²⁸.

The company's stock has a time-varying mispricing as a result of illogical categorization. When they think the cost of equity is excessively low, managers issue equity, and when they think the cost is irrationally high, they repurchase equity. It's important to realize that the second iteration of market timing doesn't require the market to be inefficient in practice. Managers are not required to predict stock returns with accuracy. The basic premise is that managers believe they can time the market. The majority of people who have thought about issuing common stock say that "the degree to which our stock is

undervalued or overvalued" was a key factor¹²⁰. According to a study, managers acknowledged attempting to time the stock market.

The premise of the aforementioned market timing hypothesis is supported by this study, but it doesn't clearly distinguish between market timing based on mispricing and market timing based on dynamic asymmetric information. According to a study, the timing of the equities markets has a long-term effect on the firm's capital structure. The weighted average of the company's market to book values over the preceding few years' external capital needs is how they define a market timing measure. They come to the conclusion that a firm's capital structure represents the culmination of prior attempts to time the equity market after seeing that leverage adjustments are highly and favorably connected to their market timing measure²⁸.

2.2.8 Theoretical Framework

The Trade-Off theory, Pecking Order Theory, and Upper-Echelon theory serve as the foundation for this work. Trade-off theory contends that debt financing has advantages since it acknowledges the presence of bankruptcy costs. This notion can be taken into account in order to benefit from a tax cut and so maximize the firm's worth. The issue will, however, arise if the businesses are unable to pay their debts and end up in bankruptcy.

The Pecking order theory is founded on the asymmetric informational supposition that corporate managers are better informed than outside investors about the prospects, risk, and value of their organization. The hypothesis explains why debt is considered to be the

most alluring external financing option and why internal finance is far more common than external finance.

The notion holds that businesses prefer to use internally generated cash flows to fund their projects. Debt will be used when this is used up, and after debt is used up, further equity will be issued. According to the hypothesis, businesses with high profits may borrow less money than other businesses since they don't need to raise money from outside sources and due debt is the least expensive and most alluring external choice when compared to other means of raising funds .

A novel theory in finance literature has recently emerged that views decision makers' constrained rationality and associated behaviors as characteristics of financial phenomena²³. Additionally, it is noted that a manager's personal traits may affect a company's financial leverage. The Upper-Echelon theory (UET) is suggested by the behavioral finance study to explain this phenomena²⁴.

Similar to this, behavioral finance-based explanations of finance and investing try to explain the what, why, and how from a human perspective²⁸. According to one argument, traditional rationality assumptions should be replaced with behavioral corporate finance assumptions since they are more realistic behavioral hypotheses²⁸. There are indications that the process of value maximization is being hampered by two major behavioral factors. He refers to the first barrier as "behavioral cost," and as it is internal to the firms, it may weaken value generation. Due to behavioral cost, cognitive flaws and emotional effects are associated with managerial errors¹²¹.

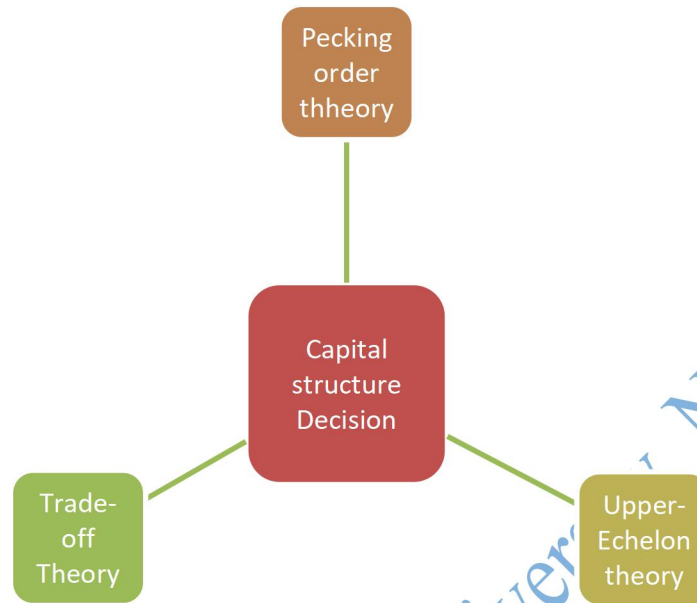


Figure 2.2: Theoretical Framework

Source: Author's Developed

Do Not Copy, Lead City University, Nigeria

2.3 Review of Empirical Studies

Many scholars have undertaken the impact of managerial traits, firm characteristics on capital structure decision in developed and developing countries including Nigeria,

2.3.1 Empirical Evidence from Developed Countries

The dynamic fractional panel estimator was used to investigate the impact of business characteristics on the speed of adjustment to target leverage in UK enterprises. According to the study, target leverage is adjusted to by small, high-growth, low-dividend paying enterprises more quickly than by their larger, low-growth, high-dividend paying counterparts¹²².

500 Croatian SMEs were used as a sample for the study of the association between company size and capital structure of small and medium-sized businesses between 2005 and 2010. The majority of earlier studies have demonstrated a favorable correlation between business size and leverage. However, a number of empirical research discovered a bad correlation between leverage and firm size. Data from annual reports of corporations were used for the empirical investigation. To investigate the connection between company size and leverage measurements, the Pearson Correlation Coefficient is used. The findings of this study show a bad correlation between business size and leverage. But the size of the company has varied effects on short- and long-term leverage. Although there is a negative but not statistically significant correlation between firm size and short-term leverage across all observed years. Except for one year, all observed years show a positive relationship between firm size and long-term leverage, though it is not statistically significant. These results suggests that larger Croatian SME's are typically

more profitable and use more retained earnings to support their firm. This result is in line with the pecking order theory's prediction of a conflict between company size and leverage¹²³.

The firm attributes and capital structure of the seafood processing companies on the South Central Coast of Vietnam were investigated. The study evaluated the following hypotheses: debt ratio, firm size, tangible fixed assets, business risk, growth prospects, profitability of the firm, liquidity ratio, interest expense ratio, and income tax ratio. Using a dummy variable, the SEASCRs that keep their debt ratio above 57.39% are also identified. A dummy variable was also employed in the study to assess how differently owned firms' capital structures differed from SEASCRs'. Additionally, using a dummy variable, assess the variations in capital structures among businesses that process seafood in various regions.

According to the study, there is a negative correlation between a company's debt ratio and its tangible fixed assets, growth prospects, profitability, liquidity ratio, and business hazards. The relationship between size and the interest expense ratio seems to be positive. The study's findings are in line with the pecking order hypothesis and the trade-off theory⁸⁸.

The study looked at how business factors affected Turkish SMEs' capital structure preferences. The study investigates whether or not SMEs have a target debt ratio, who decides how to finance investments, what financing preferences there are, and what factors affect the firms' use of external funding. In July 2011, the SMEs operating in Istanbul were subjected to the questionnaire survey methodology by fax, phone, and

email. The Kruskal-Wallis non-parametric test was employed in the investigation. The study's conclusions revealed that businesses do not adhere to a target debt ratio. The trade-off theory is therefore unsupported. Partners are more likely to choose a financing strategy for SMEs than professional managers. Evidence supporting the application of the pecking order principle has been supplied by the study. Turkish SMEs favor short-term debt over long-term debt and domestic finance sources over foreign ones. The pecking order idea is therefore validated. The factors that matter most when deciding whether to use outside funding are general economic conditions, the company's ability to pay its debts, and the risk of financial distress¹²⁴.

Researchers looked into how recruiting decisions and performance in private equity were affected by managers' team-related skills. They demonstrate that team-related talents are irrelevant to or inversely connected to success, whereas execution-related skills are critical in recruiting decisions for managers. The study included data from all US public, non-financial enterprises, which provides a much more generalized test with a different scope and focus due to the major variations between private equity firms and non-private equity firms¹²⁵.

In the capital structure decisions of publicly traded American corporations from 1950 to 2003, the relative weight of several factors was examined. The market-to-book asset ratio, tangibility, profits, log of assets, projected inflation by authors, and median industry leverage are the variables that can best be relied upon to describe market leverage. The study also discovered that companies that pay dividends typically have less leverage. Similar outcomes are shown when book leverage is taken into account. The influence of

business size, the market-to-book ratio, and the impact of inflation are unreliable for book leverage, though. The trade-off hypothesis of capital structure appears to be somewhat supported by the empirical data⁸³.

Author evaluated management characteristics and capital structure choices. In order to investigate the effects of well-documented management characteristics on corporate financial strategy and company value, the author applies a tradeoff model of capital structure. Positive and/or overconfident managers make higher debt decisions and issue new debt more frequently without having to adhere to a hierarchy. Surprisingly, the model also reveals that these managerial characteristics can contribute favorably. Biased managers are less likely to divert funds due to their higher debt levels, which raises company value by lowering the manager-shareholder conflict. Although more debt slows investment, marginally biased managers' investment choices might boost firm value by minimizing this conflict between bondholders and shareholders¹²⁶.

2.3.2 Empirical Evidence from Developing Countries

The authors looked into how managerial ownership influence the capital structure and business value in East African nations. East African listed companies totaling 65 were chosen for the study. An estimating method called GMM was used in the study. The findings suggested that increased debt will lead to a decline in firm value since leverage has a strong negative influence on the value of businesses in East Africa. This result has the implication that corporations can raise their worth by lowering their amount of borrowing. Additionally, the study discovered that managerial ownership has a negative and significant effect on how leverage and business value are related. Leverage lowers a

company's worth, according to the analysis of East African businesses. Another finding is that owner-managers are more able than non-owner managers to utilise loan capital to boost firm value. This finding has the consequence that businesses run by owners can borrow more money for operations because doing so will raise the value of the businesses¹²⁷.

Authors assessed the psychological impact on capital structure and its influence on firms' decisions about leverage in Malaysian publicly traded companies. The study used secondary data that was gathered from the annual reports of public firms that were chosen from Bursa Malaysia for a five-year period between 2014 and 2017. Using correlations and multiple regression analysis, the study ascertains the association between managerial overconfidence and capital structure decisions. The findings demonstrated a substantial positive relationship between managerial overconfidence and the firm's capital structure decision¹²⁸.

The effects of factors on financial leverage in the Indian steel industry from 2010 to 2017 were empirically analyzed in the study using panel estimation methods, and stepwise regression. Secondary data were taken. The study's findings indicated that the growth opportunity is a crucial factor in determining the debt ratio¹²⁹. The outcome also demonstrated that there are global variations in the important factors of capital structure changes between Sri Lanka and India¹³⁰.

The impact of capital structure on company quality on firm value for a sample of Indian hospitality companies listed on the BSE between 2001 and 2015. For the purpose of assessing their effects on company value, factors such as firm quality as evaluated by the

Altman Z score, leverage, size, profitability, tangibility, growth, and liquidity as well as macrovariables such as growth in the gross domestic product and inflation are taken into account. Fixed effects, random effects, and pooled OLS models were used in panel data approaches. The study's findings show a strong correlation between business quality, leverage, liquidity, size, and economic growth and firm value. The research demonstrates that the capital structure irrelevance proposed by Modigliani and Miller does not apply to the Indian hotel industry. In order to enhance the quality of the company and the performance of the firm on the market, it is important for hotel owners to review their financial structure¹⁰¹.

The impact of management traits on capital structure for companies registered on the Nairobi Securities Exchange was looked into. The analysis used in the study was a time series technique. From 2008 to 2013, the study covered businesses that were listed on the Nairobi Securities Exchange. These businesses must have been continuously (and actively) trading for at least six (6) years. Due to the remaining 14 businesses' recent listing or intermittent trading on the NSE, the study only used data from 39 companies. The study tested for linearity and normalcy. The hypothesis was tested using multiple regressions. The results of the study demonstrated that gender and age had a negative and significant impact on capital structure. Therefore, the study suggests that more women be appointed as managers. As a result, women will have the chance to contribute their diverse range of experiences and talents to the business and advance gender equality in management. The study suggests that managers should have long tenures in order to provide a deeper understanding of the business of the company¹³¹.

Examining the connection between financial leverage and the financial performance of listed companies in Kenya from 2007 to 2011 and finding pretty solid evidence that financial leverage has a significant and detrimental impact on those companies' performance¹³².

Upper echelon theory was used to analyse the financial leverage choices made by publicly traded companies on Bursa Malaysia from 2002 to 2014. The study investigated the effects of CEO personal traits on financial leverage using pooled OLS and fixed-effect regressions. Leverage is strongly and negatively correlated with the personal qualities of the CEO, such as CEO overconfidence based on CEO profile photo, CEO age, and CEO past experience.

According to the study, leverage is strongly and favorably associated to the CEO's degree and tenure. The study found that female CEOs in Malaysia took more risks than male CEOs in the CEO-age group. According to the study, younger CEOs, female CEOs, and CEOs with greater experience take more risks and are more aggressive²⁵.

The authors examined the effect of firm characteristics on capital structure for the 47 banks that make up Bangladesh's banking sector from 2008 to 2012. Secondary sources for the study came from journals, articles, and yearly reports, among other things. The study demonstrated a relationship between company attributes and the capital structure of the Bangladeshi banking sector, as well as which capital structure theory is relevant for the banking sector to make financing decisions.

Regression analysis was used to examine the capital adequacy ratio, debt to asset ratio, and debt to equity ratio all while using the capital structure as a stand-in. Pecking order

theory is more practical and suitable for making financing decisions than Trade off theory and Agency cost theory since there is a negative substantial link between the debt to asset ratio and the tangibility of the asset. The debt-to-asset ratio was chosen as the dependent variable in the study, whereas size, liquidity, asset tangibility, and profitability were chosen as the independent factors¹³³.

The CEO's emotional bias and the usage of the Bayesian network method to select the capital structure were examined. The authors' central premise is that, *ceteris paribus*, businesses led by people who fear losing money, are overconfident, or both, will choose more leveraged financial structures than others. According to the study, the chief consideration in choosing the capital structure is the CEO's emotional bias (optimism, loss aversion and overconfidence). A questionnaire with many items was used to measure emotional bias among a sample of 100 Tunisian CEOs. The study's findings indicated that pecking order decision is implied by behavioral analysis of funding possibilities (Pecking Order Theory, POT). CEOs who are overconfident, optimistic, and loss-averse prefer to finance their projects primarily using internal resources before turning to second-hand debt and equity¹³⁴.

Using a panel data set of 123 companies for the 10 years period collected from published annual reports of companies from the Tehran Stock Exchange, we investigated the factors influencing the capital structure of Iranian companies listed on the Tehran Stock Exchange for the period between 2001 and 2010. In order to look into the factors that affect capital structure, the study investigates the traditional financial theories (Trade-off

theory and Pecking order theory). To illustrate the potential impact of conventional theories, the variables size, profit, growth, tangibility, and risk factors are presented.

The study examines how financial issues affect the debt and equity structures of Iranian businesses. According to the findings, capital structure is positively correlated with size and risk. Additionally, capital structure is inversely correlated with profitability, growth, and tangibleness. The profitability finding is compatible with the pecking order, and the outcome of firm size is consistent with the trade-off theory².

In Malaysian public listed companies, the study looked at the relationship between family ownership, firm financial characteristics, and capital structure. The study's goal is to investigate the factors that affect the capital structure of publicly traded Malaysian companies between 2001 and 2006. The financial features of a firm include its size, expansion, profitability, liquidity, and debt-service capacity. Family ownership, which was identified as a distinctive feature of the Malaysian corporate sector, was utilized to evaluate the effect of corporate governance on capital structure decisions. Despite the finding that family ownership is not significantly related with capital structure except for expansion, the study, which employed a panel data technique, concluded that all other financial determinants have meaningful relationships with capital structure¹³⁵.

2.3.3 Empirical Evidence from Nigeria

Regression analysis was used to examine how company attributes affected the capital structures of listed conglomerate companies in Nigeria. The results showed that age, cost of capital, and size had positive and insignificant effects on capital structures, while profitability had a negative but insignificant impact¹³⁶.

It was possible to investigate the correlations between variables related to business characteristics and the financial performance of listed manufacturing firms in Nigeria over a 14-year period using a descriptive and cross-sectional research approach. The study used secondary data from five cited industrial corporations' annual reports. To evaluate the proposed hypotheses, a panel least squares regression model was employed. The study's conclusions demonstrated that all the independent variables collectively and strongly influenced the financial success of Nigerian manufacturing enterprises as evaluated by return on assets. The research showed that the explanatory factors (Firm Age, Firm Size, Sales Growth, Liquidity, and Leverage) had a significant relationship with the dependent variable (Return on Asset)¹³⁷.

A descriptive survey design was used to examine the factors influencing the capital structure of Nigerian deposit money institutions.. Only secondary sources of data were employed in the investigation. The capital structure of listed Deposit money banks was analyzed and its statistical drivers were discovered using multiple regressions. Panel data is used for the investigation. The regression is performed using panel data, therefore many generalized least squares choices, such as random effect GLS regression and fixed effect (inside) regression, as well as panel data robustness tests, were performed. According to the study's findings, the bank's capital structure can be thought of as the pivot around which all banking activity revolves. If properly decided, it will benefit the bank in running its business by acting as a cushion to absorb unexpected losses from its operations. The study discovered, among other things, firm growth and age, tangible assets, return on investment, and interest rate are primarily the determinant elements that

contribute to the bank leverage level of banks in Nigeria between the years 2008 and 2019¹³⁸. Examining how the diversity of the board affects the company characteristics and financial performance of Nigeria's listed conglomerate corporations. Six (6) companies were used in the study over an eleven-year period (2007-2017). For the investigation, the census sampling method was used. In order to evaluate the hypotheses, secondary data was taken from the sampled companies' annual reports and financial statements. The results of the study demonstrate that leverage had inverse and considerable impact on return on assets, whereas company size and operational expense had a negligible beneficial impact.

The increase in sales has a negative, negligible impact on the return on assets. The findings also shown a favorable and significant moderating effect of foreign directors on the relationship between leverage and sales growth and the financial performance of Nigeria's listed conglomerate enterprises. According to the study, conglomerate company management in Nigeria should mandate that, on average, 32% of their board members be international directors¹³⁹.

Using a sample of fifteen (15) DMBs from 2008 to 2017, this study examined the impact of business characteristics on the capital structure of deposit money banks listed on the Nigerian stock exchange. Ex-post facto research design was used in this work to gather secondary data, analyze the data using multiple regression and correlation analysis, and draw conclusions. As proxy variables for firm characteristics, size and asset tangibility were employed in the study. The dependent variable, capital structure, was quantified using the debt ratio, ratio of debt to assets, and the debt- equity ratio. According to the

study, business features have a non-significantly positive impact on the debt-common equity ratio but a substantial positive impact on the debt-asset ratio. The debt-capital ratio is significantly impacted negatively by firm factors as well.

This suggests that the capital structure of DMBs is significantly positively impacted by the two variables. Overall, the implications of the study's findings are favorable to both the pecking order theory of capital structure and the trade-off theory¹⁴⁰.

Financial leverage of listed diversified companies in Nigeria and the impact of firm-specific factors was examined. Six diverse companies that have been listed on the Nigerian stock market for the past ten years were counted in the study (2008-2017). Panel data analysis employing the robust Ordinary Least Square (OLS) model was used with descriptive statistics and a correlation matrix to analyze the data. According to the study's findings, company complexity and growth prospects have a favorable and considerable impact on the leverage on listed diversified companies in Nigeria, whereas reliance on external financing had a significantly inverse impact.

The management of listed diversified companies in Nigeria is advised to aim for an ideal capital structure in sectors where income streams are not favorably correlated. This can be done by taking advantage of expansion opportunities in the industries where they can diversify their business even more and boost profit margins¹⁴¹.

Review of the literature on the capital structure, including its definitions, causes, theories, and connections to performance. Since the Modigliani and Miller theory (MM) (1958) asserts that under the perfect capital market condition, which assumes that if without costs of bankruptcy as well as capital markets are frictionless, if without taxes, and if

without information asymmetry the firm's value is self-sufficient from capital structure, the capital structure theory and its relationship with a firm's value and performance have been a puzzling issue in corporate finance and accounting literature. According to the study's interpretation of MM theory, the decision about the capital structure is unimportant because the only factor that determined a firm's worth was its potential for future earnings (anticipated cash flow).

Since then, a number of theories, such as the Pecking Order Theory, Trade off theory, and the Agency Cost theory, have been created to describe the capital structure of a corporation. The study clarified the idea of capital structure, its theories, and its relationship to businesses' performance¹⁴².

The impact of adequate capital on financial performance, with a particular emphasis on a few listed Deposit Money Banks in Nigeria between 2010 and 2015. Secondary data from fact books, yearly reports, and the accounts of the Deposit Money Banks under examination were used in this study. The panel estimation of Multiple Regression Analysis, diagnostics tests and Hausman Test were used to do statistical analysis on the data. According to the study's findings, capital adequacy and financial success are positively and significantly correlated. Additionally, empirical evidence showed that, at a 5% level of significance, Capital Adequacy has a statistically significant impact on the financial performance of deposit money banks. This report advised banks to refrain from taking on excessive debt because doing so raises financial risk as well as the possibility of financial trouble and insolvency¹⁰⁷.

Using a sample of 13 DMBs from 2005 to 2014, the study examined the relationship between the capital structure and the success of Nigerian deposit money institutions. It then evaluated the impact of the capital structure (owners' funds and borrowed funds) on bank profitability in Nigeria. By discovering that almost 83% of the total assets used by the DMBs are not financed by owners, the study supported the notion that banks are highly leveraged organizations that are consistent with the agency and static trade-off theories of capital structure.

The findings also revealed evidence of a good and considerable impact on profitability from both owners' and borrowed cash. However, it was discovered that boosting DMB performance with borrowed money was more common during the study time. DMBs should use more debt than equity to finance real investments with positive net present values since debt is more important than equity in increasing the profitability of banks in Nigeria¹⁴³.

Using a sample of 50 businesses listed on the Nigeria Stock Exchange between 2001 and 2010, the research on capital structure determinants in Nigeria was conducted. Four explanatory variables and the link between short- and long-term debt were observed. The static trade-off theory and agency cost theory are applicable to Nigerian enterprises, according to the cross-sectional OLS regression results, whereas there is scant evidence in favor of the pecking order theory. The results of this study confirm that the capital structure's explanatory variables are profitability, growth, firm size, and tangibility⁸⁴.

Consequences of business expansion in relation to factors like firm size and other distinctive qualities like financial structure and productivity. They continued by saying

that while total assets, one indicator of an organization's size, has an immediate impact on sales revenue, the number of employees, investment in R&D, and other intangible assets have little to no bearing on the future prospects of the business¹⁴⁴.

The elements that influence the capital structure in the oil and gas sector in Nigeria are identified using OLS. The outcome showed that one of such elements in Nigeria's oil and gas sectors is the possibility of expansion. The study's findings also showed how Nigeria's oil and gas industry was funded, in accordance with the pecking order idea⁵⁷.

Similar to this, a pilot survey was undertaken as part of the research to evaluate the robustness and viability of Nigeria's SME funding structure. The study found that the debt financing is positively and insignificantly related to the growth opportunity¹⁴⁵

From a static trade-off perspective, 31 quoted manufacturing companies with audited financial report for the fourteen-year period (1999–2012) were analyzed. It has been disproven that under the same level of debt ratio, large enterprises are more likely to retain superior performance than midsize firms. The study showed that capital structure is a trade-off between the advantages and disadvantages of debt because the author employed the multiple regression analysis. Another study looked at agency and static trade-offs from the perspective of 10 firms over a period of ten years (2000-2009). He conducted regression analysis and came to the conclusion that the capital structure of Nigeria's manufacturing industry is consistent with trade-off theory¹⁴⁶.

In Nigeria, sixty-six unquoted agro-based companies were evaluated during a six-year period (2005–2010) using the agency cost hypothesis. Only growth and education level of firm owners were significant determinants of both long and short term debt ratios.

While business risk, size, and profitability of enterprises were major determinants of short term debt ratios for the firms under research, asset structure, age of the firms, gender of the owners, and export position had a significant impact on long term debt ratios⁹⁷.

Age and size of the firm were shown to be the most important significant determinants of capital structure for 110 firms over a five-year period (2000–2005). The size, growth, profitability, tangibility, and age of the model's parameters were estimated by the authors using the Ordinary Least Square (OLS) method. It was discovered that the capital structure of the chosen enterprises did not have any positive relationships with profitability, tangibility, or expansion. The Information Asymmetry theory and the Pecking Order theory provide support for this investigation⁶⁷.

Factors that influence the industrial sector's capital structure decisions in Nigeria. A company's capital structure consists of a specific blend of debt and equity issuance to reduce future demands on its long-term finance. In order to identify the key factors that significantly influence the capital structure of the manufacturing sector in Nigeria, this study investigated in-depth background data directly. And tangibility, size, growth potential, profitability, and non-debt tax shields are the fundamental factors that affect capital structure in the enterprises that have been found by many research. In addition to these, other factors that have been found to have a significant impact on the capital structure of businesses in Nigeria include corruption, the political climate, and the makeup of financial markets.

The report also identified potential hazards to businesses whose capital structures may lean more toward debt financing, including financial distress, bankruptcy threats, solvency concerns, default risk, etc. caused by unpredictable economic and political events.⁹⁵.

Using a linear regression model, the factors influencing capital structure in listed insurance companies in Nigeria. Profitability, expansion, tangibility, and scale were identified by the study's author as important factors of capital structure in insurance firms. His research's findings supported the ideas put out by the Pecking order theory, the trade-off theory, and the Agency Cost theory. The reviewed relationship between capital structure composition and financial performance of listed firms: a critical review of literature. Capital structure is important in the business affairs of any going concern entity as it's the overall source of finance used by a company in financing its operations and has been considered as one of the most important factors in firm financing policy due to its crucial role in corporate performance. The characterization of the relationship signs as positive or negative and the direction whether capital structure impacts on financial performance of firms both manufacturing and non-manufacturing are questions that authors have tried to answer for a long time. Financial performance is the blue print of the financial affairs of a concern and it reveals the organizations ability to translate its financial resources into mission-related activities. The literature has laid down the inconsistencies as a result of different multi-sector samples and the multiplicity of financial performance of the Firms. Since these factors are apparently the originating causes of this inconsistency, there is need to address them particularly in the review of the

literature that is available, this will allow the reflection of new trends in research and to highlight ways of enriching this research tradition. Decision about capital structure still remains one of the most challenging and most difficult issues facing companies, at the same time the most critical decision about the continued survival of companies. To study the relationship between capital structure composition and financial performance of Firms will help us know the potential problems in financial performance and capital structure¹⁴⁹.

The study explores C-suite bias, firm characteristics, and capital structure decisions of quoted industrial goods firms in Nigeria. Data from 2002 to 2020 was used in an ex-post-facto research design while pooled OLS was used for analyses. The study found that C-suite tenure had a favourable influence on capital structure, suggesting that the duration during which C-suite executives govern their firms' affairs has a beneficial effect on the capital structure decisions. Therefore, the study advances that corporations should enable C-suite members to serve for a longer period of time; because the longer they remain at the helm of the company's affairs, the better their capital structure decisions¹⁵⁰.

The findings showed that analysts optimistically consider profits from undertakings with overconfident C-suites. C-suite overconfidence hypothesis publications and also indicate that confident managers systemically spend too much on internal funds instead of loans or stocks. According to the findings, firms with depleted operational cash flow (OCF) as a result of overinvestment by their overconfident C-suite are more likely to alter their OCF figures. They discovered that overconfident C-suites modify negative OCF in a

more positive direction than reasonable counterparts, and that overconfident C-suites exercise greater discretion over OCF¹⁵¹.

The study covered the period from 1998 to 2003 to examine C-suites' optimism, overconfidence, and capital structure determinants for Brazilian companies listed on the São Paulo stock exchange (BOVESPA). The empirical analysis suggests that critical determinants of capital structure such as profitability, size, dividend payment, tangibility, and corporate governance standards are also found relevant. The results indicate that behavioural approaches based on research into human psychology can provide appropriate contributions to understanding corporate decision making¹⁵².

An empirical investigation revealed that management overconfidence and government guarantees are significant contributors to taking unnecessary risks in the banking business. In a principal-agent model, where the bank manager sets the degree of risk, the researchers integrated management overconfidence and limited bank liability. A manager that is overconfident overestimates the returns to risk. The study's findings indicated that management confidence demands intervention in banker compensation. This is because the bank exploits the manager's high bonus valuation, which results in excessive risk-taking in equilibrium and is exacerbated by government guarantees. Additionally, it revealed that overconfident C-suites are more prevalent in banks that receive big government guarantees, have low bonus taxes, and have lenient capital standards¹⁵³.

Some demographic characteristics of biased C-suits and used two distinct scenarios to debate about the implications of five ideas about the relevance of gender in the C-suite. The study investigated the influence of the Chief Financial Officer's (CFO) gender on the

share price responsiveness to the executive's employment and on post-hire business performance. Both tests corroborate the concept that female CEOs are less biased than their male colleagues, but not less risk averse. Additionally, data indicate that female Chief Financial Officers considerably boost operating performance for enterprises functioning in low volatility environments¹⁵⁴.

The study examined the capital structure and the value of quoted firms in Nigeria: a test of Miller and Modigliani irrelevant hypothesis. This study tested an insignificant hypothesis of the capital structure of Miller and Modigliani in Nigeria. The aim was to investigate the validity of the irrelevant hypothesis. The Tobins Q market value measure was modeled as a function of debt-to-equity ratio, long-term debt to equity ratio, and retained earnings ratio. Twenty companies were selected on the basis of the information needed to conduct the survey and the availability of annual financial reports for the ten-year period 2008-2017. Cross-sectional data were obtained from the annual accounts and annual reports of the companies. Random effects were used in the analysis of fixed and random effects. The study showed that 77% volatility in market value can be predicted by the variation of independent variables in the regression model. The beta coefficient of the variables found that the debt-to-equity ratio, the long-term debt-to-equity ratio, the capital-to-earnings ratio is positively and significantly related to the market value of the selected listed companies. The study concludes that capital structure is relevant, unlike Miller's and Modigliani's irrelevant hypothesis. Therefore, the study recommended that managers ensure an adequate combination of capital and debt¹⁵⁵.

The study evaluated the corporate governance attributes and firms' capital structure: evidence from listed companies in Sri Lanka. The sample of the study consisted of a panel of 50 main board listed companies; which covers all the non-financial sectors of Colombo Stock Exchange for three-year period from 2016 to 2018. Since there is no specific research carried out on examining corporate governance attributes and capital structure on main board listed non finance firms of Sri Lanka; hence this research has made a substantial contribution to the local literature. Multiple regression analysis was employed to analyze the variables. Further this study finds a significant and negative relationship between CEO duality and capital structure. This suggests splitting the key organization roles of CEO and chairmanship will leads to employing less debt in capital structure. This research study finds except for CEO duality, other corporate governance attributes has lesser implications on the capital structure due to companies are currently following the corporate governance code and it will not create a direct background as an impact factor on financing decisions. Further the findings are assisting firms to strengthen their internal corporate governance mechanism¹⁵⁶.

Analyzed of impact of corporate governance on the capital structure decisions examining and the number of board meetings, number of non-executive directors, managerial ownership and institutional ownership through multiple regression. The analysis was carried out for 30 manufacturing firms which were listed on the Colombo Stock Exchange from 2008 to 2012. Further it reveals that number of board meetings and number of non-executive directors' variables are significant and positively related to

capital structure. However, managerial ownership and institutional ownership variables are significant but negatively related to capital structure¹⁵⁷.

The study examines the dynamics and determinants of target capital structures among manufacturing firms listed on the Nigeria Stock Exchange during the period from 2012 to 2021. The study is motivated by the disparity in the Speed of Adjustment (SOA) to target leverage, which is influenced by firm-specific attributes largely dependent on macroeconomic indices. Therefore, understanding the determinants of SOA to target leverage is germane because no two macro-economic environments are the same. A longitudinal research design was used with a population of 75 manufacturing firms. The sample consists of 42 firms, drawn using a simple random technique. Secondary data is sourced from the annual report. Generalized Method of Moments is the estimation technique. The result shows that manufacturing firms adjust to a target capital structure with a high speed of 72%. This confirms the application of dynamic trade-off theory among listed manufacturing firms in Nigeria. Profitability, firm size, and asset tangibility are significant determinants of SOA to a target capital structure, confirming pecking order, agency, and static trade-off theories, respectively. Tax shelter and growth were not significant determinants. The study concluded that there is evidence of dynamic adjustment to the optimal capital structure of listed manufacturing firms in Nigeria. Governments and policymakers in firms should make effective policies that aid speedy access to long-term funds by these firms to increase their SOA to target capital structure¹⁵⁸.

Investigation on the “relationship between capital structure and firm performance” was done. The authors used panel research design involving seventy-five (75) companies quoted on the Nigerian Stock Exchange for the period 2010-2014. To avoid endogeneity problem, they estimated and analyzed their data using two stage least squares (2SLS). The authors revealed that neither the ratio of noncurrent liability-to-equity nor “financial performance” proxy by ROA affect each other. However, their findings indicate a bidirectional relationship between short-term debt-to-equity ratio and return on assets. Further, indicate a bidirectional causality between the proportion of equity to total assets and ROA. They concluded that capital structure decisions affect firm performance (ROA) and that firm “financial performance” also influence capital structure decisions in Nigeria¹⁵⁹.

Investigation on the effects of capital structure choice on profitability of oil marketing companies in Ghana was conducted. The authors used current liability-to-total capital, long-term debt-to-total capital as well as total debt-to-total capital to measure capital structure. On the other hand, return on assets, return on equity and net profit margin were adopted as measures of performance. The authors utilized the multiple regression method to analyze their data. The estimated results of the three models in their study revealed a mixed relationship between their measures of capital structure decisions and performance (ROA and ROE) of “Oil Marketing Companies”¹⁶⁰.

The study examined whether how the capital of a firm is composed affects the company’s profitability. The authors measured profitability with return on assets and return on equity while debt-to-equity ratio was used as a measure of capital structure. Their samples were

drawn from “the most profitable non-financial companies ranked in Fortune Global 500” as at 2016. Results of their study were mixed. They found a positive correlation between ROA and debt-to-equity ratio but a very weak association between debt-to-equity and ROE¹⁶¹.

The study empirically investigated the “relationship between capital structure and firm performance” of listed firms in the Nigerian stock exchange. The study drew a sample of 30 firms from the 173 stocks quoted on the Nigerian stock market. Their study covered the period from 2005 to 2014. The authors applied an “econometric panel data technique” to analyze their data. They report an insignificant negative correlation between financial leverage and ROA. Their study also indicates that debt/equity mix has a negative and significant relationship with ROE¹⁶².

The study examined the impact of capital structure on financial performance of firms in the Nigerian cement industry. The authors used annual data from 2010 to 2014 with a total of 20 observations drawn from 4 listed cement companies and apply “panel data analysis” to investigate the extent non-current liabilities and current liabilities affect return on assets and return on equity respectively. The authors show that non-current liabilities have a positive and significant relationship with return on assets and return on equity respectively. Similarly, current liability significantly affects both return on assets and return on equity¹⁶³.

Investigation on how corporate capital structure decisions affect financial viability of listed companies on the Premium Board segment of the Nigerian stock market 2010 – 2018 was conducted. The objectives were to ascertain; the extent the proportion of debt

in relation to equity influence return on assets, determine the effect of non-current liabilities to net worth ratio on return on assets and to examine the relationship between total liabilities to total assets and return on assets. “Panel data analysis” was used to analyze the data. The “Fixed effects model” as well as the “Random effects model” were estimated. The “Hausmann test” suggested the Fixed effects model for interpretation of results. The empirical analysis revealed mixed relationships between capital structure decisions and financial viability of firms. The authors recommended that quoted Companies on the Premium Board should target achieving optimal combination of debt and equity to enhance returns on capital employed as well as sustain their Long-term debt profile to continue to improve the level of return on assets. Listed companies on Premium Board should re-examine their working capital policy to minimize the negative effect of short-term debt on return on total assets; given that long-term liability to total assets ratio exhibit a positive and significant association with return on assets while total liability (current plus non-current) to total assets ratio suggests a negative and significant effect on return on assets¹⁶⁴.

The study reviewed from the past to present, the influencing factors that determine capital structure decisions. This review study seeks to assess the state of determinants of corporate capital structure over the last 7 years to aid discover gaps as opportunity for further research. The review used a sample of 68 published journal articles in diverse high-ranked journals spanning the years 2014–2020. The review study considered criteria for inclusion and exclusion of the published journal articles. Findings from the review study reveal that study on capital structure determinants focuses largely on quantitative

research than qualitative research and mixed research. Again, capital structure determinants research concentrates more on nonfinancial sector as against the financial sector. However, firm-level study has been realized to dominate the level of analysis space in comparison with industry-level, country-level and synthesis-level studies. Moreover, estimation technique centered greatly on regression analysis model in relation to others. Notwithstanding, the study observed that the pecking order theory is the most adopted in addressing issues of capital structure determinants. The authors provide analysis on research methodology approach and geographical region coverage as being part of addition made to reviews in this study area. Recommendations have been made for future review in the field of capital structure determinants¹⁶⁵.

The authors examined the capital structure and firm financial performance. Thus, Capital structure is important in the business affairs of any going concern entity as is it the overall source of finance used by a company in financing its operations and has been considered as one of the most important factors in firm financing policy due to its crucial role in corporate performance. The study sought to examine the effect of capital structure on the financial performance of firms in Nigerian manufacturing sector. The population of the study was all the listed manufacturing companies listed on the Nigerian Stock Exchange, a sample of 10 listed companies was selected. The research design adopted was ex-post facto using four models to analyse the impact of capital structure on firms' performance. The study used balanced panel data of 100 observations from the 10 listed companies for the periods ranging from 2007 - 2016. The authors used descriptive statistics and regression to analyse the data. The study reveals that there are statistically significant

and non- significant effects of capital structure on performance variables. Finally, the study recommends that manufacturing companies should adopt balanced capital structure strategy that will optimise company's performance and corporate value¹⁶⁶.

The study was limited to debt finance by using descriptive, correlation and regression analysis and discovered that there is a statistically significant effect between long and short-term liability on Return on Assets (ROA) and Return on Equity (ROE) ¹⁶⁷. Similarly, a study employed quantitative research design and regression analysis and ordinary least square in carrying out this study. The results of the study revealed that capital structure of firms in Nigeria has a long run relationship with the growth and development of Nigerian economy¹⁶⁸.

The study examined the impact of leverage on firm's performance in Nigeria using fixed-effect estimation, random-effect estimation and a pooled regression model. The author found that all the leverage measures have a positive and highly significant relationship with

the market performance measure (Tobin's Q)¹⁶⁹.

However, another study revealed from the regression estimations showed that debt structure has a negative and significant impact on the performance of Nigerian quoted firms within the period under review¹⁷⁰. The findings also conclude that a negative relationship exists between leverage and firm performance. With the above reviews, it is evident that the area of interest to this study has not be considered by scholars in this field hence the aim of this study to examine the effect of capital structure¹⁷¹.

This study aims to identify the firm-specific determinants of capital structure in the Gulf Cooperation Council (GCC) countries, namely Bahrain, Kuwait, Qatar, Oman, Saudi Arabia, and the United Arab Emirates. A number of regression models are employed on the data of 329 non-financial firms for the period between 2009 and 2017. The data has been analysed at both country level and regional level to look for the evidence on the major determinants of capital structure and the differences, if any. The authors indicated that size, tangibility, and growth opportunities have positive impact on leverage. On the other hand, profitability, age, financial constraints, liquidity, and government ownership affect the leverage negatively. There is a weak evidence for a positive relationship between leverage and operating risk. The results also imply that the institutional features of GCC countries have a minor effect on the leverage within a general model for the region. Although GCC countries have a unique institutional environment that distinguishes them substantially from other countries, the current study provides evidence that the capital structure decisions are influenced by the same factors as in other developing countries¹⁷².

Another study aims to investigate the moderating role of profitability in the relationship between capital structure and firm value in Jordan, as an example of an emerging economy. For this purpose, two functional models were formulated to capture the direct relationship as well as the interaction impact of capital structure on firm value. The robust empirical findings of panel data analysis provide strong evidence of an adverse relationship between capital structure and firm value. The findings confirm that the impact of capital structure appears to be complicated in nature and difficult to examine

without controlling for the interaction of profitability as one of the major determinants. Therefore, studying the interaction effect provides ample evidence and enhances the understanding of the link between firm value and capital structure. The empirical results of the study may provide important insights and policy implications to decision-makers¹⁷³. The study is aimed to investigate the determinants of capital structure of Iranian firms listed on Tehran Stock Exchange for the period between 2001 and 2010. A panel data set of 123 (1230 observation) companies for the 10 years period is collected from published annual reports of companies from Tehran Stock Exchange. The study explores the traditional financial theories (Trade-off theory and Pecking order theory) to investigate the determinants of capital structure. The variables of size, profit, growth, tangibility, and risk factors are included to represent the potential influence of traditional theories. The study analyzes the impact of the financial factors on the debt and equity structure of the Iranian firms. The results indicate that the size and risk are positively related to capital structure. In addition, profitability, growth and tangibility are negatively related to capital structure. The result of firm size is consistent with the trade-off theory and result of profitability is consistent with the pecking order theory¹⁷⁴.

Another examined the corporate capital structure and firm's market value in Nigeria.

This study therefore seeks to identify and appraise the impact, capital mix, role of debt capital and the factors that influence a firm's choice of capital and the overall effect of firm's market value in Nigeria. In the course of this study; both primary and secondary sources of data were relied upon. The primary data were obtained through the use of a well-structured questionnaire, while the secondary data were obtained from the fact book

and periodic publications of the Nigerian Stock Exchange, as well as the annual financial statements of the sampled firms. The result indicated that the market value of a firm is positively significantly influenced by its choice of capital structure (financial leverage). Consequently, the theory of a firm's optimal capital structure is justified on the ground that it has an empirical significant positive impact on the firm's market value. The study recommends that Quoted firms in Nigeria are encouraged to make maximizing of their market values the major focus when deciding their choice of capital structure and firms in Nigeria should strive to optimize their capital structure by an appropriate mix of debt-equity capital; for an optimal capital structure is the debt-equity mix that best maximize firms' market values¹⁷⁵.

The study investigates the impact of managers' and investors' perceptions on financial leverage decisions in Bangladesh. To fulfill the purpose of the paper, the final structure of the questionnaire was made by adopting pretesting and assessment of outer factor loadings and measures the internal consistency of all items in the test or scale using Cranach's Alpha. The composite reliability (CR) was tested by calculating the composite alpha and average variance extracted (AVE). The study employs partial least square structural equation modeling (PLS-SEM) to investigate the structured relationship between the observed and latent variables and extends the path analysis to test the hypotheses. The study reveals that corporate governance significantly and positively influences the leverage structure decision. The result intends to establish that if firms serve corporate governance, it will make the firms to manage more debt into the leverage structure decision. Results also reveal a negative and significant association between the

determinants and financial leverage structure decision, and this relation signifies that when determinants tend to upturn, outside borrowing will fall into the financial leverage structure decision. The policy implications advanced from the study include the transformation of ownership structure, corporate governance, and financial policy to facilitate proper leverage structure decisions¹⁷⁶.

The study examined the effect of firm capital structure decisions on their performance based on a sample of non-financial firms. The results of the study show that capital structure decisions thus affect firms' performance significantly. The study sampled 20 listed firms on the Ghana Stock Exchange over a 7 year period from 2010 to 2016. The study used both equity ratios and leverage ratios to measure capital structure. In all the regression results, the leverage variables were inversely related to performance. Short-term debt to equity which was expected to be positively related to performance is equally negatively related. The argument for short-term debt being positively related is due to the fact that such funds are generally cheap and easily accessible. However, the significance of such decisions on performance is mostly observed on equity holders. Thus, the return on equity as a measure of performance is significantly impacted by capital structure decisions. This is true regardless of the financial leverage variable observed, be it short-term debt, long-term debt or total debt. This, therefore, suggests that managements' decision regarding how much debt to be employed in a business is constantly made with shareholders being the revolving factor¹⁷⁷.

Another study attempted to study the influence of capital structure on the performance of banks using a panel data of 38 banks in Tanzania over five year's period. The research

postulation was that capital structure has a positive impact on firm performance. The research used two variables, capital structure as an independent variable and firm performance as a dependent variable. Capital structure was measured by using debt to equity ratio, short-term debt to equity, total debt to total asset and short debt to asset and short debt to asset ratio, short debt to asset ratio. The study results specified the presence of inverse relationship and hence exchange between the usage of leverage and firm performance. Capital structure was measured using the ratio of debts to equity and performance was measured by cost efficiency and return on equity on capital structure. The study found firms in Tanzania employed more debt than equity financing. The study also determined that firms in Tanzania choose to use more short-term debts, hence they still have a chance to excel as the debts to asset ratio was found to have a significant positive impact on return on equity. The study concluded that there was a negative relationship between the capital structure and performance of the banks¹⁷⁸.

The study on the relationship between capital structure and commercial bank performance using panel data analysis was conducted. The study was aimed at identifying the relationship between capital structure and bank performance by employing data from bank scope and covered 20 banks in Tanzania. The causal research design was used because the study sought to identify the relationships between the dependent and the independent variables. The dependent variable is ROE (return on equity). The independent variables are equity to loans, equity to total asset, liabilities to equity and equity to customer funding. The study concluded that there was a negative relationship between the capital structure and performance of the banks¹⁷⁹.

The study on capital structure and firm performance in Nigeria. The study used profit before tax as a dependent variable and two capital structure variables (Equity and Debt) as an independent variable. The sample of the study consists ten Nigerian banks quoted on NSE for a period of eight years from 2005 to 2012. Ordinary least square regression analysis of secondary data shows that capital structure has a positive relationship with financial performance. This suggests that the management of quoted banks in Nigeria consistency use debt and equity capital in financing to improve earnings¹⁸⁰.

The study examined the influence of capital structure on firm's performance in both developed and developing markets. A sample of 1200 listed firms in Germany and Sweden and 1000 listed firms in China for the period 2003-2012 were used in his study. Applying OLS regression method, he documented that capital structure has a significant negative effect on firm's performance in China, but, a significant positive effect in two European countries, i.e., Germany and Sweden, before the financial crisis in 2008¹⁸¹.

The study examines the impact of firm attributes in determination capital structure of listed food and beverages companies in Nigeria from the perspective of pecking order and trade off theories. Firm characteristics are proxied by growth opportunity, firm size, profitability, assets tangibility and non-debt tax shields, while the dependent variable (capital structure) is represented by leverage. The study uses secondary data collected by means of documentation for the period of ten years ranging from 2008- 2017. The research design employed was correlational in nature. The hypotheses formulated for the study was tested by mean of robust multiple regression equation. Post estimation tests such as multicollinearity and heteroscedasticity tests were carried out to validate the

results. The findings of the study on one hand show that non-debt tax shields has no significant effect on the companies' leverage, but in the case of growth opportunity, firm size and assets tangibility, positive statistical significant relationships were established. On the other hand, profitability has been established to show significant negative relationship with leverage. The study concludes that firm characteristics have significant effect on financing mix of the companies under investigation. Therefore, the study recommends that companies should be wary of increasing debt finance in their financing mix by only taken into cognizance of these firm specific attributes. Finance managers should carefully consider the costs of taken on more debts and painstakingly strike a balance between the costs of debt and their eventual benefits thereof. Finally, regulatory authorities should come up with flexible rules that will enable companies have easy access to long term debt financing option¹⁸².

This study was conducted to investigate the role of industry as a mediator on the capital structure-firm value nexus among listed Oil/Gas firms and Banking firms in the Nigeria Exchange Limited. Panel data spanning 21yrs (2000-2020) was subjected to empirical analysis. Capital structure was measured using leverage ratio, equity ratio and interest expense while market based measure was used to measure firm value (Tobin's Q). The panel least square was used for data analysis along with other preliminary tests. Competition and technology were used as measures for industry factors while an industry dummy was used to capture industry differences. Findings showed that leverage and equity had a significant positive relationship with firm's value while interest expense had a negative but significant relationship with firm value. Finally, leverage was found to

change with the different industries and positively impacted firm's value. However, the findings showed that competition and technology did not change with industry thus proving that these factors (technology & competition) are not significant in explaining possible changes in the capital structure of sampled firms. The study concluded that capital structure has a positive significance on firm's value while industry differences have a significant impact on this relationship. The study recommended that firm's should ensure that the proportion of leverage to equity do not grow to unsustainable levels to avoid the result of diminishing effect on firms value¹⁸³.

The study investigated the capital structure and corporate performance of Nigeria's publicly traded pharmaceutical businesses. The study was conducted over a six-year period (2012-2017) and was evaluated using descriptive analysis, and the panel least square techniques along with the fixed and random effect models. Findings showed that Short-term debt has an insignificant positive effect on return on equity, long-term debt had a negative and significant effect, and firm size had an insignificant negative effect on return on equity. According to the findings, substantial amounts of debt have serious implications on the value of pharmaceutical firms operating in Nigeria¹⁸⁴.

The study investigated the impact of capital structure on business performance using data from selected listed pharmaceutical companies in Nigeria from 2009 to 2017. The study used panel regression analysis, and findings showed that only firm size was significant and negatively related to pharmaceutical enterprises' performance using return on asset, according to the fixed effect results in the two models¹⁸⁵.

The study demonstrated the importance of firm-specific and industry-specific factors in the leverage decision of Australian firms using the ordinary least square method using data spanning 1999-2012. Findings showed that firm level factors varied between industries. Further findings showed that industry factors had an indirect and direct link with firm's capital structure¹⁸⁶.

This explored the nexus between firm's value and firms financing mix as well as ascertaining the moderating role of profitability. The study was conducted in the Jordanian Stock exchange for the period 2013-2017. The study employed the use of fixed effect model under the OLS framework. Result findings indicated that the relationship between debt ratio and ROA was negative and significant. The interaction between profitability and debt ratio was also found to significantly influence firm's value¹⁸⁷.

The study examined the impact of capital structure on firm's value in Vietnam for the period 2014-2018. The study employed the use of multiple regressions to capture the relationship between variables. The findings indicated that capital structure has a positive significant relationship with firm value during the period of study¹⁸⁸.

The paper studies the impact of managerial traits, i.e. optimism, confidence and risk aversion, on capital structure using a principle-agent framework. We discover that optimistic manager perceives equity as more undervalued than debt, while, confident manager perceives debt as more undervalued than equity. We also find that there exists the level of risk aversion eliminating the impact of optimism and confidence on the leverage. Furthermore, in contrast to rational manager, the optimistic/confident manager

has higher level of effort. And then, the increasing in risk aversion reduces the level of effort. Authors found that the results are in line with some empirical findings¹⁸⁹.

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Summary of Relevant Empirical Studies

A study to explore how corporate characteristics influence the capital structure of listed conglomerate companies in Nigeria between 2011-2019. The researchers used regression analysis to examine the impact of several corporate characteristics on capital structure, including profitability, age, cost of capital, liquidity, tangibility, and size. The study found that profitability had a negative but insignificant effect on capital structure, while age and cost of capital had a positive but insignificant impact. In contrast, liquidity, tangibility, and size had a negative and significant impact on capital structure. The researchers noted that their results were limited to conglomerate firms in Nigeria and that the sample size was small, limiting the generalizability of their conclusions. Additionally, the study did not consider other factors such as managerial traits¹²¹.

In another study examined the connection between business characteristics and financial performance in listed Nigerian manufacturing enterprises over a period of 14 years. The researchers used panel least square regression to analyze the relationship between various firm characteristics, including firm age, size, sales growth, liquidity, leverage, and return on asset. The study found a significant relationship between these factors and return on asset, but it did not consider capital structure as a dependent variable. Furthermore, the study did not include a variable for managerial traits¹²⁴.

A study to investigate how firm characteristics influence the capital structure of deposit money banks listed on the Nigerian stock exchange. The study focused on 15 DMBs from 2008-2017 and used multiple regression and correlation analysis to examine the impact of firm characteristics on debt-capital ratio. The study found that firm

characteristics had a significantly negative impact on debt-capital ratio. However, the study did not consider managerial traits and was not focused on manufacturing companies in Nigeria⁷⁹.

In a study conducted to determine how a company's unique traits affect the financial leverage of listed diversified enterprises in Nigeria. The study analyzed data from six quoted diversified firms between 2008-2017, using descriptive statistics, correlation matrix, and Ordinary Least Square. The study's findings revealed that the complexity of the business environment and growth prospects had a positive impact on the financial leverage of listed diversified companies in Nigeria. However, the study did not discuss managerial traits or provide diagnostic controls¹³⁶.

In another study examined the psychological impact on capital structure and its bearing on the choice to use leverage by a Malaysian publicly traded company. The study analyzed data from selected listed companies between 2014-2017, using correlations and multiple regression analysis. The findings indicated a significant positive correlation between management overconfidence and the firm's capital structure decision. However, the study was carried out in Malaysia without focusing on a specific sector of companies, and it did not consider firm characteristics, making the outcomes subjective¹⁴¹.

Factors affect financial leverage in the Indian steel industry between 2010-2017. The study used correlation matrix, regression analysis, and stepwise regression to analyze the data. The study's findings indicated that an essential factor in determining the debt ratio was the potential for growth. However, the study did not discuss managerial traits, and it was carried out in India, not in Nigerian manufacturing firms¹⁴³.

A study to investigate how firm characteristics affect the capital structure of the Bangladeshi banking sector, using a sample of 47 banks from 2008 to 2012. The study employed regression analysis and found a significant relationship between corporate characteristics and capital structure in the Bangladeshi banking sector. However, the study did not consider managerial traits, and the relationship tested is specific to the banking sector¹²⁰.

The factors that influence the capital structure of Nigerian businesses listed on the Nigeria Stock Exchange, using a sample of 50 companies from 2001 to 2010. The study used OLS regression and found a relationship between capital structure and profitability, growth, company size, and tangibility. However, the study did not provide information on the types of companies analyzed, whether manufacturing or non-manufacturing firms¹¹¹.

The impact of adequate capital on financial performance, focusing on selected listed Deposit Money Banks in Nigeria, using data from 2010 to 2015. The study employed various statistical tests such as Pearson correlation, multiple regression analysis, and variance inflation factors. The study found a positive and significant link between capital sufficiency and financial performance. However, the study did not consider managerial traits and was not focused on manufacturing companies in Nigeria¹⁴⁵.

A study to investigate how management style affects capital structure in companies listed on the Nairobi Securities Exchange. The study involved 39 companies between 2008 to 2013, and multiple regressions were used to analyze the data. The results indicated that age and gender significantly and negatively affect capital structure. However, the study was carried out in Kenya without focusing on specific companies, and firm

characteristics were not put into consideration, which can make the outcome very subjective¹⁴⁷.

How business characteristics affect quoted deposit money banks in Nigeria from 2010 to 2015 in terms of financial performance. The study involved 6 DMBs and utilized Pearson correlation and ordinary least square (OLS). The findings demonstrated a favorable and statistically significant relationship between firm characteristics (proxied by size) and financial success (proxy by Return on Asset, Return on Equity, and Return on Capital Employed) of deposit banks in Nigeria between 2010 and 2015. However, the study was based on bank data, which was very subjective. Additionally, the sample size was relatively small, limiting the generalizability of the findings to other contextual settings²¹. The connection between the capital structure of Croatian small and medium-sized businesses and firm size. The study involved 500 Croatian SMEs between 2005 to 2010, and Pearson Correlation Analysis was used to analyze the data. The findings showed a bad correlation between leverage and firm size. However, the study focused on a firm size variable only, did not cover manufacturing firms, and did not consider managerial traits³⁹.

A study to assess the determinants of capital structure of 110 firms from 2000 to 2005 using Ordinary Least Square (OLS) regression analysis. The study found that while profitability, tangibility, and growth did not have any positive link with the capital structure of the selected organizations, age and size of the firms were the most significant determinants of their capital structure. However, the study did not consider managerial traits and was not focused on manufacturing companies in Nigeria¹⁵⁰.

Managerial ownership affects the relationship between capital structure and firm value in East African countries by analyzing 65 listed firms using the GMM estimation technique. The study demonstrated that management ownership had an inverse and significant impact on the link between leverage and firm value, suggesting that leverage has a significantly negative impact on the value of businesses in East Africa. However, only managerial ownership was considered in managerial traits variables, which may make the result subjective¹¹.

The determinants of capital structure in listed insurance firms in Nigeria from 2003 to 2009 using a linear regression model. The study found that profitability, growth, tangibility, and size were prominent determinants of capital structure in insurance firms. However, the study only considered capital structure determinants variables and neglected managerial traits. Additionally, the study did not consider manufacturing firms⁵. The relationship between family ownership, a firm's financial attributes, and its capital structure among publicly traded companies in Malaysia. The study used multiple regression analysis and found that while all other financial variables had significant correlations with capital structure, family ownership did not have a significant association except for growth. However, the types of companies were not specified, and the study did not take into consideration the managerial traits variables¹⁷⁰.

A study focused on determining the impact of firm characteristics on the capital structure of seafood processing enterprises, both listed and unlisted, in Vietnam from 2005 to 2011. The study used multiple regression analysis and found a negative correlation between a company's debt ratio and its tangible fixed assets, growth prospects, profitability,

liquidity ratio, and business hazards. On the other hand, the relationship between size and interest expense ratio seemed to be positive. However, the study only focused on food processing and was not carried out in Nigeria. Additionally, the study did not consider managerial traits variables⁹⁸.

The aim was to investigate the relationship between capital structure and profitability of Nigerian deposit money institutions. The study was carried out on 13 DMBs from 2005 to 2014, using autoregressive methods. The results indicated that a large portion of DMBs' assets (83%) are financed through borrowed funds rather than owners' equity. Additionally, both owners' cash and borrowed funds had a positive and significant impact on profitability. However, this study solely focused on the capital structure and profitability of banks and did not include non-financial firms in Nigeria¹²⁸.

Similarly, a study aimed to examine the impact of firm characteristics on capital structure choice of Turkish SMEs¹²⁸. The study used non-parametric tests of the Kruskal-Wallis and found that firms do not follow a target debt ratio. However, this study solely focused on SMEs and did not include listed companies in Nigeria.

Finally, a study aimed to identify the factors that determine the capital structure of Nigeria's deposit money banks. The study was carried out on 21 DMBs from 2008 to 2019, using multiple regressions and generalized Least Square (GLS) and fixed effect. The study found that the primary determinants contributing to the banking industry's leverage level in Nigeria were not profitability, growth, tangibility, or size, but rather macroeconomic factors such as inflation and interest rates. However, this study solely focused on determinants of capital structure of banks in Nigeria and did not include non-

financial firms in Nigeria. Additionally, the study did not consider managerial traits variables¹⁶⁸.

2.4 Summary of Gap in Literature Reviewed

Regarding the influence of managerial characteristics and firm characteristics on capital structure decisions of listed manufacturing firms in Nigeria, there is relatively little empirical evidence. First of all, the majority of studies are based on developed economies, while very little empirical information is available regarding the implications of the relationship and impact of managerial traits, firm characteristics, and capital structure decisions of listed manufacturing in emerging or transitional economies like Nigeria. Second, despite relatively few rare occurrences in the sort of data collection that is essentially non-cross-sectional, the technique for all the research stated tends to be the same, leading to tiny sample sizes that impair accurate generalizations. Along with the aforementioned, the literature is divided on the impact of managerial characteristics and firm characteristics on capital structure decisions made by listed manufacturing firms in Nigeria.

Contrarily, there is evidence that firm characteristics are linked to a small number of capital structure decisions and that factors influencing capital structure focused mainly on banking sectors, SMEs in both Nigeria and other developing countries^{67,95, 124,138,140,141}.

Other studies did a short review of firm characteristics, managerial traits and they tried to correlate it with different interest areas like financial reporting quality, corporate governance, organizational performance, by taking various articles from scientific data sources^{101 127,137}.

Most research on what determines capital structure has been done on firm characteristics and corporate governance or performance include, relationship between capital structure, firm value and managerial ownership listed firms in East Africa¹²⁷. The study of influence of firm characteristics on financial performance in quoted manufacturing companies in Nigeria¹³⁷. The study examines the effect of capital structure on firm quality on firm value ¹⁰¹.

Some focused on determinant of capital structure include, without regards to considered the managerial bias. Previous studies on the managerial bias or characteristics and capital structure include managerial traits and capital structure decisions^{59, 95,147,148}. This study used upper echelons perspective to investigate the financial leverage decision of publicly listed companies in Bursa Malaysia²⁵. Other focused managers' characteristics on capital structure among firms listed in NSE, Kenya.

From the available literature, some researchers concentrated on the firm characteristics factors or variables in relation to firm performance and or firm value in corporate organizations such as banks, SMEs by proxying the performance as shareholder value, return on assets, return on equity, return on capital employed, and others. These factors or variables included firm age, growth, firm size, tangibility, profitability, institutional holdings, and firm growth. However, only a small number of authors have explored management personality variables including manager tenure, manager education level, manager experience level, and manager genders in relation to capital structure decision. The literature that is currently accessible does not offer an explanation for the relationship between combined managerial characteristics and firm characteristics

variables and capital structure decision in listed manufacturing companies in Nigeria that suggest the gap's presence. By examining the influence of managerial characteristics and business characteristics on the capital structure decision of listed manufacturing firms in Nigeria over a long period of time (10 years), 2010-2020, the current study aims to close the existing research gap. However, this study is significant not just because it attempts to close the knowledge gap by taking the COVID 19 implications into account, but also because it does so.

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2.5 Conceptual Framework

Diagrammatical Representation of Relationship between independent variables, control variable, microeconomic variables and dependent variable

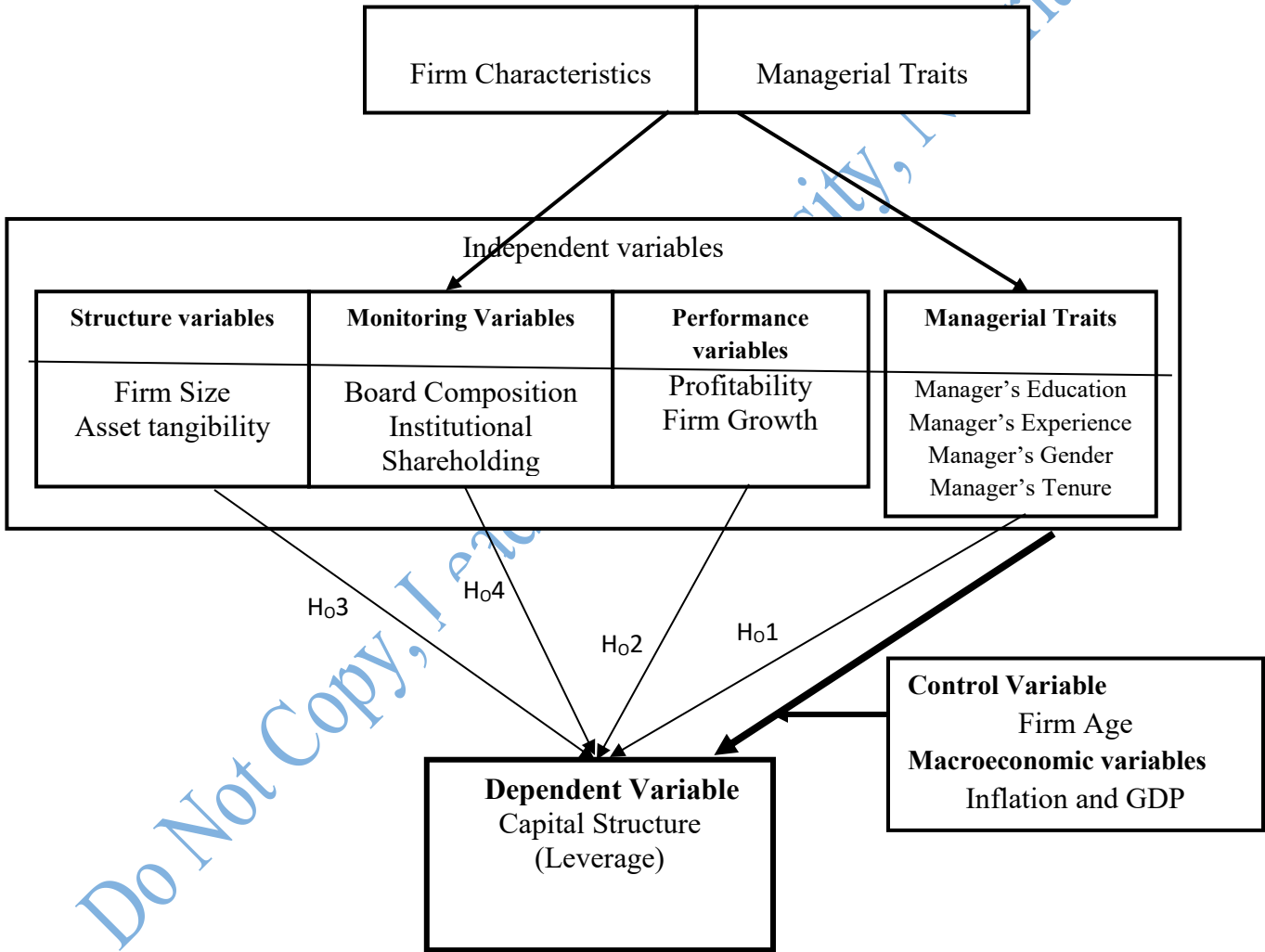


Figure 2.3 Conceptual Framework

Source; Researcher (2023)

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Chapter Three

Methodology

3.0 Preamble

This chapter describes the research procedures used in this study, including research design, population, sample, sampling methodology, research instrument, data collecting, and data analysis.

3.1 Research Design

The longitudinal panel research design was used because it is suitable technique for time order assessment of variables, which in this case measured the effect of independent variables like performance variables (profitability and Firm growth,) Structure variables (firm size and tangibility) monitoring variables, (board composition and institutional ownership) managerial traits (Manager's Education, Experience, Gender and Tenure), control variables (firm age) and macroeconomic variables (inflation and GDP growth) on a given dependent variable (capital structure proxy by Leverage) among quoted manufacturing companies over a period of (10) years from 2010 to 2020.

The panel design further strengthens the choice's applicability by enabling researchers to choose the time order of the variables based on logical reasons. This is, of design, suited for a developing nation like Nigeria and is sufficient enough to fully capture any behavioral change, in contrast to the cross-sectional design method that is frequently

utilized in the majority of research in this area, both in wealthy and developing economies.

3.2 Population of the Study

The population for this study consisted of all active firms listed manufacturing firms on the Nigerian Stock Exchange (NSE) as at 31st December 2020. Furthermore, considering firms under the sector categorization according to the Nigerian Stock Exchange (NSE) provides a basis for cross-industry analysis which is expected to provide some more useful insights. The study's population consists of fifty-five (55) listed manufacturing companies on the Nigerian Stock Exchange.

3.1 Classifications of Nigerian Listed Manufacturing Firms

S/N	Sector Classification by (NGX)	Population
1	Consumer Goods	20
2	Industrial Goods	13
3	Healthcare	8
4	Agriculture	5
5	Natural Resources	4
6	Conglomerate	5
	TOTAL	55

Source: Author Research Compilation from NSE

3.3 Sample Size and Sampling Technique

Sampling technique employed for selecting the sample for the study was judgmental sampling with population criteria that firms not listed by NGX as at January, 2010 are exempted. This method is one of the non-probabilities that give an opportunity for

Secondary data covering related data such as managerial traits(educational qualification, tenure, experience and gender) and firm characteristics variables such (firm size, tangibility, board composition, institutional shareholding, profitability, and liquidity) extracted from the audited annual financial reports and accounts of thirty four (34) active listed manufacturing firms and Nigerian Stock Exchange Fact-book.

3.5 Measurement of Variables

Table 3.3: Measurement of variable

Variables	Variable Label	Measurement	Source	Expected Sign
Dependent variable				
Capital Structure Decision <i>Leverage</i>	LEV	Ratio of total debt to total assets	Audited Financial report and accounts	
Independent Variables				
Firm size	FSIZE	natural logarithm of total assets	Audited Financial report and accounts).	±
Tangibility	TANG	Non-Current Asset/Total Assets	Audited Financial report and accounts	±
Board Composition	BOCO	the ratio of independent non-executive directors to board size	Audited Financial report and accounts	±
Institutional Ownership	INSOW	number of share held by active institutional investor to the total number of outstanding	Audited Financial report and accounts	±
Profitability	PROF	Return on	Audited Financial	±

		Asset (ROA)	report and accounts
		the percentage of profit before tax to total assets	
Firm Growth	FGRW	total sales of current year minus total sales of previous year over previous year total sales	Audited Financial \pm report and accounts
Managers' gender	MGED	1 if the manager is male and 0 if the manager is Female	Audited Financial \pm report and accounts
Managers' Experience	MEXP	If the manager is also a senior executive at another company, the score is 1; otherwise, the score is 0	Audited Financial \pm report and accounts
Managers' education	MEDU	Measured by manager's that has master above, 1 if the manager have masters above otherwise 0	Audited Financial \pm report and accounts
Managers' Tenure	MTEN	Number of years served as manager's position	(Audited Financial \pm report and accounts
Control Variable Firm Age	FAGE	Measure as Log number of years since incorporation date	Audited Financial report and accounts
Macroeconomic variables			

Mgte = Managers' tenure
 Prof= Profitability
 Fgrw= Firm growth
 Fsize = Firms size
 Tang= Tangibility
 Boco= Board composition
 Insh= Institutional Ownership
 Fage= Firm Age
 Infl= Inflation
 Gdp= GDPgrowth
 ε = Error term

$\lambda_0, \alpha_0, \beta_0,$ and $\delta_0,$ are intercepts

$\lambda_1 - \lambda_7$ = Coefficient of parameter of model 1

$\alpha_1 - \alpha_5$ = Coefficient of parameter of model 2

$\beta_1 - \beta_5$ = Coefficient of parameter of model 3

$\delta_1 - \delta_5$ = Coefficient of parameter of model 4

Note the subscription index "it"

i = company

t = time

3.7 Methods of Data Analysis

To provide answers to research questions and to achieve stated objectives information on all variables were analyzed using descriptive and inferential statistics. The descriptive statistics included measurement of central tendency such as mean, maximum and minimum and measure of variability such as standard deviation, skewness and kurtosis. The inferential statistic adopted included panel estimation technique while Hausman test was carried out to determine whether the Fixed and Random Generalized Least regression would be more appropriate. Diagnostic test such as heteroskedasticity and multicollinearity were used to establish the reliability of data.

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Endnote

1. L.J. Barno. *Impact of managers' characteristics on capital structure among firms listed in Nairobi securities exchange, Kenya*. **International Journal of Economics, Commerce and Management United Kingdom** V(7), 2017, 487-503

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Chapter Four

In Table 4.1.3 the P-value of the Hausman test showed 1.000, showing that the Random Effect Generalised Least Square is more appropriate. Table 4.1.3 disclosed that the joint outcome of explanatory variables had a significant impact on the leverage as P-v is $0.000 < 0.05$ level of significant with F-statistics 2.362317. This implies that there was an influence of firm managerial traits and macroeconomic variables on the leverage of the selected Nigerian manufacturing firms. The R^2 value 0.34 indicating that about 34% of total variation of leverage is explained by the predictor variables and the remain which is not explained but accounted for by the error term.

However, there is a positive insignificant relationship between the managerial education and leverage as shown (coefficient of 0.023642, P-Value= 0.9264). This result indicating that the level of managerial education has nothing to do with ability to source and managing debt. There is negative significant influence of managerial experience on leverage as confirmed (coefficient of -0.407425, P-Value=0.0106). This implies that experience of managers are risk takers and more aggressive. This support the work of Irene, et al (2015) who found that the CEO prior experience are significantly and negatively related to leverage. The study found that managerial tenure are significantly and negatively related to leverage as shown (coefficient of -0.028191, P-Value=0.0568). This means longer-serving managers are risk takers and more aggressively. The study also discovered that managerial gender are insignificantly and positively related to leverage as shown (coefficient of 0.150605, P-Value=0.2143). This implies that the female managers are less risk takers as compared to male managers in Nigeria context. There is positive insignificant influence of firm age on the leverage as

confirmed (coefficient of 0.171252, P-Value=0.1530) while inflation rate is insignificantly and positively related to leverage as shown (coefficient of 0.006363, P-Value=0.1720). The GDP growth have a negative insignificant influence on leverage as coefficient shows (coefficient of -0.000472, P-Value=0.9238) respectively. This implies that there would be decline in leverage when the economy of the country is depressed. This also indicates that firms tend to reduce their debt position through retaining earnings which is in supports of pecking order theory. The Dw value of 1.55 showed there is no presence of auto serial correlation among the variables because the value is within the accepted level of threshold.

However, the study concluded that the firm managerial traits, control variables of firm age as well as macroeconomic variables of inflation and GDP are considered as whole determinants of leverage among Nigerian manufacturing firms

Table 4.1.4: Variance Inflation Factors of Model 1

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	0.018026	72.08051	NA
MEDU	0.003648	13.23892	1.166864
MEXP	0.003659	13.33891	1.176963
MTEN	3.76E-05	7.502108	1.034716
MGED	0.005151	19.50833	1.032794
FAGE	0.003425	31.98699	1.180165
INF	3.33E-05	19.55353	1.001279
GDP	3.42E-05	1.039539	1.023433

Source: Author's Computation (2022)

In Table 4.2.3 the Hausman test showed p-v of 0.052 showing that the Fixed Effect Generalised Least Square is preferred. Table 4.2.3 disclosed that the joint outcome of explanatory variables had a significant impact on the leverage as P-v is $0.000 < 0.05$ level of significant with F- Value of 19.4770. This implies that there was an influence of firm performance variables (ROA FGR), firm age and macroeconomic variables on the leverage of the selected Nigerian manufacturing firms. The R^2 value 0.71 indicating that about 71% of total variation of leverage is explained by the predictor variables and the remain of 29 % is not explained but accounted for by the error term.

In Table 4.2.3, the study also discovered that profitability ROA is significantly and negatively related to leverage as shown (coefficient of -0.006323, P-Value < 0.05). This implies that firms will prefer internal financing to external financing, which supports the pecking order theory. The study also reveals that firm growth is significantly and negatively related to leverage as shown (coefficient of -0.000314, P-Value < 0.05). The higher the company growth level thereby firms employ a lower debt level. This implies that firms will prefer internal financing to external financing, which supports the pecking order theory. The firm age has positive and insignificant association with leverage as confirmed by (coefficient of 0.191442, P-Value > 0.05) while inflation rate is insignificantly and positively related to leverage as shown (coefficient of 0.007017, P-Value > 0.05). The GDP growth have a negative insignificant influence on leverage as coefficient shows (coefficient of -0.003255, P-Value > 0.05) respectively. This implies that there would be decline in leverage when the economy of the country is depressed. This also indicates that firms tend to reduce their debt. The Durbin-Watson statistical

value of 1.55 showed there is absence of auto serial correlation among the variables because the value is within the accepted level of boundary. However, the study concluded that the firm performance variables of profitability and firm growth, control variables of firm age as well as macroeconomic variables of inflation and GDP are considered as whole determinants of leverage among Nigerian manufacturing firms

Table 4.2.4 : Variance Inflation Factors

Variable	Coefficient		
	Variance	Uncentered VIF	Centered VIF
	0.01224		
C	9	46.43547	NA
ROA	1.79E-06	1.253490	1.028413
FGR	3.28E-08	1.032927	1.003466
	0.00313		
FAGE	6	27.76766	1.024492
INF	3.52E-05	19.59539	1.003423
GDP	3.42E-05	1.039539	1.023433

Source: Author's Computation (2022)

The Variance Inflation Factor (VIF) approach was employed in the study to check for multicollinearity among the explanatory variables. According to Wooldridge (2009), explanatory variables with VIFs more than 10.0 exhibit strong multicollinearity with other explanatory variables. No explanatory variable has a VIF greater than 10.0, as shown in Table 4.2.4. Since it falls between 1.003423 to 1.028413, multicollinearity among the explanatory variables in the study work is not present.

Observations	340	340	340	340	340	340
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Source: Author's Computation (2022)

The Table 4.3.1 shows the mean of leverage (LEV) firm size (FSIZE), tangibility (TANG), firm age (FAGE), inflation rate (INF) and GDP growth (GDP) of 0.561680, 9.201671, 0.438030, 1.499720, 11.80161 and 3.649759 respectively. Table 4.3.1 also that FSIZE had a maximum value of 25.31153 and a minimum value of 5.092700, thus this implies that firm size, that is total assets contributed maximally to leverage. This is because larger organizations are more diversified, have lower bankruptcy risks, which reduce their expenses associated with financial hardship, and have simpler access to capital markets, which is supported by tradeoff theory. The standard deviation serves as a gauge of a series' dispersion. From Table 4.3.1 the standard deviation for LEV, FSIZE, TANG, FAGE, INF and GDP growth are 0.318995, 5.186124, 0.297039, 0.293966, 2.745745, and 2.835153 respectively. The outcome suggests that firm size, with a standard deviation of 5.186124, is a riskier parameter than that of other study parameters. The Probability values of Jarque-Bera of LEV, FSIZE, TANG, FAGE, INF and GDP were less than the 0.05 significance level, showing that all variables follow the normal distribution.

Table 4.3.2 Correlation Matrix of Model 3

Variable	LEV	FSIZE	TANG	FAGE	INF	GDP
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R-squared	0.686284	0.020219
Adjusted R-squared	0.646678	0.005551
F-statistic	17.32804	1.378466
Prob(F-statistic)	0.000000	0.23182
Durbin-Watson stat	1.530291	1.028331
Hausman Test	Chi-Sq. Statistic	5.405035, P value 0.0385

Source: Author's Computation (2022)

In Table 4.3.3 Hausman test showed p-value of 0.038 which is < 0.05 significance level, this indicating that the Fixed Effect Generalised Least Square is preferred. Table 4.3.3 disclosed that the joint outcome of predictor variables had a significant impact on the leverage as P-v is $0.000 < 0.05$ level of significant with F- Value of 17.32804. This implies that there was an influence of structure variables (firm size, tangibility), firm age and macroeconomic variables on the leverage of the selected Nigerian manufacturing firms. The approximately R^2 value 0.69 indicating that about 69 percent of total variation of leverage is explained by the predictor variables and the remaining 31 percent is not explained but accounted for by the disturbance error term.

The study also found that firm size is strongly and adversely associated to leverage, as indicated in Table 4.3.3 (coefficient of -0.069657, P-Value < 0.05). This implies that larger firm size may shunned borrow and tends to lower debt. In other word, firms with larger size will have capability of coverage in market, and information of such firms is readily available to the investors thereby have better access to capital market, which supports by tradeoff theory. The study also reveals that tangibility is insignificantly and positively related to leverage as shown (coefficient of -0.025113, P-value > 0.05). In the event of bankruptcy, a company with more tangible assets would have a larger pool of

collateral assets to pay off debt, increasing its capacity to attract additional loans. The firm age has positive and significant association with leverage as confirmed by (coefficient of 0.312793, P-Value < 0.05). This suggests that a business with a longer history has a strong potential for revenue development and is hence highly creditworthy to take on more debt. The inflation rate is insignificantly and positively related to leverage as shown (coefficient of 0.006103, P-Value >0.05). The GDP growth have a negative insignificant influence on leverage as coefficient shows (coefficient of -0.003255, P-Value >0.05) respectively. This implies that there would be decline in borrowing when the economy of the country is depressed. This also indicates that firms tend to reduce their debt. The Durbin-Watson statistical value of 1.53 showed there is absence of auto serial correlation among the variables because the value is within the accepted level of boundary. However, the study concluded that the firm structure variables of firm size and tangibility, control variables of firm age as well as macroeconomic variables of inflation and GDP are considered as whole determinants of leverage among Nigerian manufacturing firms.

Table 4.3.4 : Variance Inflation Factors for Model 3

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	0.013141	45.80382	NA
TANG	0.003352	3.269091	1.027684
FSIZE	1.08E-05	4.207875	1.012146
FAGE	0.003136	26.76765	1.034492
INF	5.64E-05	28.86110	1.477893
GDP	5.29E-05	3.934842	1.488102

Source: Author's Computation (2022)

The Variance Inflation Factor (VIF) approach was employed in the study to check for multicollinearity among the explanatory variables. According to Wooldridge (2009), explanatory variables with VIFs more than 10.0 exhibit strong multicollinearity with other explanatory variables. No explanatory variable has a VIF greater than 10.0, as shown in Table 4.3.4. It displays a range between 1.012146 and 1.488102; as a result, multicollinearity among the study's explanatory factors is not present.

Table 4.3.5 :Diagnostics Test of Post Estimation Technique

Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	1.746794	Prob. F(4,335)	0.1393
Obs*R-squared	6.946575	Prob. Chi-Square(4)	0.1387
Scaled explained SS	20.44864	Prob. Chi-Square(4)	0.0004

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	239.9845	Prob. F(2,333)	0.0000
Obs*R-squared	200.7327	Prob. Chi-Square(2)	0.0000

Since the F-stat and Obs R² had p-values of 0.1393 and 0.1387, respectively, which are related and have a >0.05 level of significance, it is inferred that there was no heteroskedasticity from the results of the Breusch-pagan-Godfrey test in Table 4.3.5. Additionally, Table 4.3.5 displayed F-statistics and Obs R² values of P-v 0.000 and 0.000, respectively, indicating that auto-correlation was not present in the model according to the significance threshold of P 0.05.

Standard deviation is a measure of spread of dispersion in the series. From Table 4.4.1 the standard deviation for LEV, INSOW, BOCO, FAGE, INF and GDP growth are 0.319415, 29.51841, 15.58401, 0.294329, 2.749716 and 2.838258 respectively. The result implies that institutional ownership with a standard deviation of 29.51841 is riskier than other parameters in the study. The Probability values of Jarque-Bera of LEV, INSOWN, BOCO, FAGE, INF and GDP were less than the 0.05 significance level, showing rejection of the null hypothesis of all variables follow the normal distribution

Table 4.4.2: Correlation Matrix for Model 4

Variable	LEV	INSOW	BOCO	FAGE	INF	GDP
LEV	1.000000					
INSOW	-0.000225	1.000000				
BOCO	-0.172707	0.019858	1.000000			
FAGE	-0.013311	-0.086858	0.206076	1.000000		
INF	0.060658	-0.014773	0.146499	0.030977	1.000000	
GDP	-0.053050	-0.020223	-0.092698	-0.135480	0.566821	1.000000

Source: Author's Computation (2022)

Table 4.4.2: shows that negative correlation were found among the variables of institutional ownership, board composition, firm age and GDP except for inflation rate that has positive correlation with leverage. Though, the findings discover that all variables have weak correlation to leverage. There is a positive correlation pair between institutional ownership and board composition. The result indicating that level of

indicating that about 68.9 percent of total variation of leverage is explained by the predictor variables and the remaining 31.1 percent is not explained but accounted for by the disturbance error term.

In Table 4.4.3, the study also shows that institutional ownership is insignificantly and positively associated with leverage as shown (coefficient of 0.001375, P-Value > 0.05).

This finding is in line with the alignment of interest concept, which contends that managers who hold a sizable stake in a company's equity are better able to oversee operations efficiently, which reduces debt.

The study also shows that the board's composition has a considerable, detrimental impact on leverage. With more independent non-executive directors on the board, the company might benefit from their expertise and experience as well as their potential for great monitoring. This would be compatible with agency theory and could ultimately result in higher returns and less debt. This is in line with a research, which found that a large board's poor performance increased coordination and communication issues and diminished the ability of directors to oversee management.

The firm age has positive and significant association with leverage as confirmed by (coefficient of 0.288536, P-value > 0.05). The inflation rate is significantly and positively related to leverage as shown (coefficient of 0.009277, P-value < 0.05). This implies that risen in inflation tends to make firms borrow instead of raising equity. The GDP growth have a positive insignificant influence on leverage as coefficient shows (coefficient of -0.002556, P-value > 0.05) respectively. This implies that there would be decline in borrowing during the economy recession, thus this also indicates that firms tend to

reduce their debt. The Durbin-Watson statistical value of 1.537 showed there is absence of auto serial correlation among the variables because the value is within the accepted level of threshold. However, the study concluded that the monitoring variables of institutional ownership and board composition, control variables of firm age as well as macroeconomic variables of inflation and GDP are considered as whole determinants of leverage among Nigerian manufacturing firms.

4.5 Discussion of Findings

In this study, the capital structure decisions of listed manufacturing companies in Nigeria were evaluated in relation to managerial characteristics and firm characteristics. The study investigated the effects of four independent variables on a given dependent variable (capital structure proxy by Le): performance variables (profitability and firm growth); structure variables (firm size and tangibility); monitoring variables (board composition and institutional ownership); managerial traits (manager's education, experience, gender, and tenure); control variables (firm age); and macroeconomic variables (inflation and GDP growth). One by one, these variables were each regressed on leverage.

Based on the objective one, the results demonstrated that firm managerial characteristics (managers' education, experience, gender, and tenure), control variables related to firm age, as well as macroeconomic variables such as inflation and GDP, had a significant impact on the capital structure (leverage) among Nigerian manufacturing firms. Leverage and managerial education do have a positive, negligible association,

though. This finding suggests that the ability to obtain and manage debt has little to do with managerial education level. Contrary to earlier research, this conclusion shows a strong correlation between the firm's decision to use leverage and the CEO's educational background. The study also reveals that managerial experience has a negative, significant impact on leverage¹. Therefore, this means that managers with greater experience are more aggressive and risk-takers, which is backed by upper echelon theory. The findings that the CEO's prior experience is considerably and adversely related to leverage are supported by this. However, it was asserted that prior experience broadens a management's understanding of markets and helps the manager spot an opportunity². They further agree that the CEO's previous experiences will enhance firm efficiency and survivorship².

The study discovered a strong and unfavorable relationship between managerial tenure and leverage. Longer-tenured managers are hence more aggressive and risk-takers. The results supported the assumption that as tenure increases, managers become more self-assured and take on more problems in their financing decision³. The conclusion is supported by research showing that leverage decisions are considerably and favorably connected to CEO tenure. The study also found a weak and favorable relationship between managerial gender and leverage. This implies that, when it comes to Nigeria, female managers are less risk-taking than male managers¹. In contrast, a different author's study suggested that encouraging gender equality in management would provide women the chance to contribute their diverse range of experiences and talents within the organization⁴.

Age of the firm has a small but favorable impact on leverage. These results support a 2013 study by Sherif and Elsayed who looked at how corporate traits affected capital structure in Egyptian insurance companies. The authors discovered a bad correlation between capital structure and business age. The results are consistent with those of who discovered that firm age has a favorable and negligible impact on capital structure⁵. This finding conflicts with that of the authors, who discovered a negative and substantial relationship between firm age and overall leverage^{6,7,8}. The inflation rate is insignificantly and positively related to leverage while GDP growth have a negative insignificant influence on leverage as coefficient. This confirmed a negative association and authors' contention that businesses often produce larger net profits and greater sales during periods of peak economic activity corroborate this conclusion⁹.

The results of objective two demonstrated that there was a strong association between leverage and the firm performance factors of profitability and firm growth, control variables of firm age as well as macroeconomic variables of inflation and GDP among Nigerian manufacturing firms. The finding showed a substantial and negative relationship between profitability as measured by return on assets and leverage. This suggests that firms will favor internal financing over external funding, which is consistent with the pecking order theory. The results support research by authors who discovered a poor correlation between profitability and capital structure^{10,11}.

Likewise, researchers discovered a statistically significant inverse link between profitability and capital structure^{12,13,14}. Another group of researchers found a substantial inverse link between capital structure and profitability^{15,16}.

Theoretical Contributions:

- **Trade-Off Theory:** The study aligns with the Trade-Off Theory, demonstrating how Nigerian manufacturing firms navigate their financing decisions by carefully weighing the advantages and drawbacks of utilizing debt. The findings substantiate this theory by showcasing that variables such as a company's growth trajectory, size, and asset tangibility significantly impact the extent to which firms opt for external debt as part of their capital structure.
- **Pecking Order Theory:** This research supports the Pecking Order Theory, indicating that as firms expand, they tend to prioritize internal financing over external sources. This theoretical framework offers insights into the hierarchical approach firms adopt when selecting their financing options, aligning their practices with the core tenets of this theory.
- **Agency Theory:** While not explicitly addressed, the study indirectly delves into Agency Theory by revealing a connection between longer managerial tenures and more pronounced risk-taking behavior. This observation aligns with the notion that agency-related issues within firms can influence managerial decision-making. It underscores the potential influence of agency problems on financing choices.
- **Marketing Timing Theory:** Although not explicitly named, the study indirectly applies elements of Marketing Timing Theory by suggesting that economic conditions play a pivotal role in impacting a firm's borrowing decisions. This

demonstrates how firms can strategically time their debt issuances to align with favorable market conditions, presenting a practical application of this theory.

Empirical Contributions: The study offers substantial empirical contributions by providing real-world support for the various theoretical frameworks outlined. It reinforces the relevance and applicability of these theories to the unique context of Nigerian manufacturing firms. These empirical findings lend weight to the theoretical constructs, offering valuable insights into how these theories manifest in practice.

Practical Implications: The practical implications of this research extend to manufacturing firms, managers, and policymakers alike. Firms can benefit by recognizing the value of experienced managers who can make informed decisions related to debt management and identify growth opportunities. Moreover, addressing gender disparities in risk-taking behavior among managers can lead to more inclusive and diverse decision-making processes, potentially enhancing overall risk management strategies.

The study emphasizes the significance of considering a firm's growth stage, size, and asset base when making financing decisions. It underscores the relevance of both Trade-Off and Pecking Order Theories in guiding these practical choices. Furthermore, the study advocates for boards with independent non-executive directors who possess diverse expertise, as this can contribute to more informed financial decision-making, lower debt levels, and ultimately higher returns for the firm.

Understanding the impact of economic cycles on borrowing decisions is crucial. Firms are advised to align their actions with prevailing market conditions. During economic booms, leveraging can be strategically employed, whereas during economic downturns, reducing debt can be a prudent decision, highlighting the cyclical nature of corporate financing choices.

5.5 Suggestions for Further Studies

This study makes the case for more research into the management characteristics hypothesis in order to be successful. When the management and stakeholders are faced with a variety of capital structure options, a comparative analysis of the impact of managerial characteristics and business characteristics on listed manufacturing enterprises and service firms will aid in providing direction. There should be more research done on how organizational culture affects a company's financial structure. Future studies should take into account additional relevant features, particularly those of a financial nature, to provide further insight into the capital structure choices made by Nigerian manufacturing companies and to better understand the link.

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31	Pharma-Deko Plc	Health Care
32	Pz Cussons Nigeria Plc	Consumer Goods/Foods, Beverage & Tobacco
33	RAK Unity Petroleum Company Plc	Oil and Gas
34	Seplat Petroleum Development Company Ltd	Oil and Gas
35	Tate industries Plc	Consumer Goods/Foods, Beverage & Tobacco
36	Total Nigeria Plc	Oil and Gas
37	Unilever Nigeria Plc	Consumer Goods/Foods, Beverage & Tobacco
38	Union Dicon Salt Plc	Consumer Goods/Foods, Beverage & Tobacco
39	Aba Textiles Mills Plc	Industrial Goods/Textiles
40	Berger Paints Nigeria Plc,	Industrial Goods/Chemical & Paints
41	Bewac Nigeria Plc	Consumer Service/Automobile & Tyre
42	CAP Plc	Industrial Goods/Chemical & Paints
43	Ceramic Manufacturer Nigeria Plc	Industrial Goods/Building Materials
44	Champion Breweries Plc	Consumer Goods/Breweries
45	Dangote Cement Plc	Industrial Goods/Building Materials
46	DN Meyer Plc	Industrial Goods/Chemical & Paints
47	DN Tyre and Rubber Plc (Dunlop Nigeria Plc)	Consumer Service/Automobile & Tyre
48	Golen Guinea Breweries Plc	Consumer Goods/Breweries
49	Guinness Nigeria Plc	Consumer Goods/Breweries
50	International Breweries Plc	Consumer Goods/Breweries
51	Intra Motors Plc	Consumer Service/Automobile & Tyre
52	Lafarge (WAPCO) African Plc	Industrial Goods/Building Materials
53	Niger Cement Plc	Industrial Goods/Building Materials
54	Nigerian Breweries Plc	Consumer Goods/Breweries
55	Premier Breweries Plc	Consumer Goods/Breweries

Source: Nigerian Stock Exchange (NSE, 2023)

HYPOTHESIS 3

Dependent Variable: LEV

Method: Panel EGLS (Cross-section random effects)

Date: 03/18/22 Time: 20:54

Sample: 2010 2019

Periods included: 10

Cross-sections included: 34

Total panel (balanced) observations: 340

Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.383640	0.235673	1.627847	0.1045
FSIZE	-0.009045	0.008644	-1.046372	0.2961
TANG	0.065222	0.062623	1.041500	0.2984
LAGE	0.110892	0.118787	0.933539	0.3512
INF	0.006285	0.004673	1.345165	0.1795
GDP	-0.002134	0.004919	-0.433948	0.6646

Effects Specification

	S.D.	Rho
Cross-section random	0.259771	0.6524
Idiosyncratic random	0.189613	0.3476

Weighted Statistics

R-squared	0.020219	Mean dependent var	0.126327
Adjusted R-squared	0.005551	S.D. dependent var	0.190825
S.E. of regression	0.190295	Sum squared resid	12.09484
F-statistic	1.378466	Durbin-Watson stat	1.028331
Prob(F-statistic)	0.231827		

Unweighted Statistics

R-squared	0.021237	Mean dependent var	0.561680
Sum squared resid	33.76329	Durbin-Watson stat	0.368373

Bio-data

A. Personal Data

Full Name: Matthew Mayor, BAMIDELE
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Phone Number: 08036413175
Date 13th November, 1980
Place of Birth: Ilesa
Nationality: Nigerian
Name of Next of Kin: Adeyeri LawrenceOludare
Address of Next of Kin No 6, Anaye Street, Ilesa, Osun State

B. Educational Background

Educational Institutions Attended with Dates and Qualification:

- i. **Primary Education:** Ifeoluwa Primary School, Ilesa
 - Primary School Leaving Certificate 1989
- ii. **Secondary Education:** Obokun High School, Ilesa
 - West African School Certificate 1995
- iii. **Higher Education Institution:**
 - Osun State College of Technology, Esa-Oke
Higher National Diploma (HND) Accountancy 2000
 - University of Ado-Ekiti, Ekiti State
Bachelor of Science (B.Sc) Banking & Finance 2003
 - Lead City University, Ibadan
Master of Science (M.Sc) Accounting 2011
 - Doctor of Philosophy (PhD) Accounting in View

C. **Working Experience with Dates:** Osun State College of Technology,
Esa-Oke, Osun State 2006 till date

D. **Awards and Fellowships (if any):** No

E. Membership of Academic Professional Bodies:

- Institute of Chartered Accountant of Nigeria (ICAN)
- Nigerian Institute of Management (NIM)

F. Publication if Any

(a) Thesis/Dissertation: The Effect of Corporate Post Governance on the Performance of selected Banks in Nigeria

(b) Published Journals/Articles

(i) Adeyemo, K.A. Bamidele, M.M. *Effect of Firm size and Asset Tangibility on Capital Structure of listed Manufacturing firms in Nigeria.*

Journal of Forensic Accounting & Fraud Institution (IFAFI)
2021, Vol.6, issue 2, 192-207

(ii) Bamidele, M.M. Adeyemo, K.A., Adewumi A.D. *Influence of Profitability and Firm Growth on Capital Structure Among listed Manufacturing Companies in Nigeria.* *Association of Forensic Accounting Researcher (AFAR)*, Dec., 2022 Vol. 4, Issue 3

(iii) Bamidele, M.M., Omole, I.L. & Odumeru, J.A. (2017). Human Capital Accounting and Market Value of Oil and Gas Companies in Nigeria. Vol. 6 21354-21369 issue 11 November 2017.

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(v) Bamidele, M.M., Adigun, O.M., Folayan, O.D. & Ibrahim, J. (2018). *Exploring The Relationship Between Financial Management And Performance Of Cooperative Organizations.* **Journal of Accounting.** ISSN 2504-8856 vol. 4, No.4

Seminal Papers Accepted For Publication

Ibrahim, J., Adeyemi, A.O., & Bamidele, M.M. (2016). *Impact of Central Payment System on Government of Osun State. A Paper Presented at National Arts Management.*

Seminal Papers Presented At Conference

1. Bamidele, M.M., Adekola, A.O., & Ikotun, A.O. (2020). Impact of Balance Scorecard and Strategic Performance of Oyo State owned Tertiary Institutions (*Faculty Seminal*).
2. Folayan, O.D., Omole, I.I., Bamidele, M.M. (2018). Critical Evaluation of impact of Auditors Independence and Quality of Audit in Nigeria. (*Faculty Seminal*).

Thesis/ Dissertation: None

Books/Monographs: None

Notable Scholarly or Professional Accomplishment:

G. Associate Member of Institute of Chartered Accountant of Nigeria (ACA)

H. Associate Member of National Institute of Management (ANIM)

Major Conference / Workshop Attended with Dates

40th Annual Accountant Conference. International Conference Centre & Sheraton, Abuja Hotel.

Signature

Date

The University Compliance Certification

This is to certify that Mayor Matthew BAMIDELE with Matriculation No LCU/PG/000497 in the Department of Management and Accounting, Faculty of Management & Social Sciences, Lead City University, Ibadan carried out the thesis, Oyo State is in full compliance with the approved University Format and Style.

Signature

Date